

MAX FINGER/
OLIVER SAMWER

America's Most Successful Startups

Lessons for Entrepreneurs

24A
9904a

GABLER

VISIT...

LANZAROTE
Caliente.COM

Max Finger/Oliver Samwer

America's Most Successful Startups

Lessons for Entrepreneurs

2. Ex.
(Ex. Ex.)

GABLER

Preface

Leaving school and standing at the threshold of the next stage in our life, through this study we have had the chance to take a glance at the 21st century. We hope to be able to communicate some of those impressions to a wider audience through this book. For entrepreneurs, the book develops a series of concrete propositions which provide hands-on lessons for creating a successful venture.

Thus we hope that this book will be used again and again as an Entrepreneur's Handbook. If we have done our job well, it will soon be full of underlinings, marginal notations and highlighting. It is meant to provide useful advice for people like us, people who want to be entrepreneurs.

The book documents empirical research bearing on the question of how to start, build and grow a successful venture. The research is based exclusively on interviews with America's most successful high-tech startups in Silicon Valley and Massachusetts.

In these interviews we came across the most tremendous people, entrepreneurs of the 21st century, first-tier venture capitalists, investment bankers, lawyers and technologists. People who will be driving the economy of tomorrow.

We spotted a great number of traps and pitfalls on the way to a successful company and learned crucial lessons, which we are trying to communicate in this book. Some of the lessons may appear to be obvious, common sense, but the reader should most carefully think about the far reaching consequences those propositions will have once they are implemented. Writing on this book, the authors themselves had the opportunity to put some of these propositions into practice. The lessons were a tremendous inspiration for us but we also realized that they are very difficult to live. If the reader really wants to implement this advice, he must be ready to actively change his behavior.

Obviously the American model cannot be reproduced one-to-one in Europe, especially since the environment is not as supportive for entrepreneurial success as it is in the United States. That is the reason why our field research and ultimately this book focuses exclusively on the specific hands-on lessons which will help to build a successful company, no matter what the environment looks like, no matter where you are in the world. Anybody should feel perfectly free to pick whatever they consider to be valuable. The book is not meant to be categorical. The most important thing for us is that the

people who read this book learn from these lessons and go out to create their own ventures. There are many different ways to succeed, but we are convinced that when applying these lessons an entrepreneur will be more likely to succeed on the threshold of the 21st century.

Vallendar, Germany, September 1998

Max Finger (max_finger@whu-koblenz.de)

Oliver Samwer (oliver_samwer@whu-koblenz.de)

Acknowledgment

A report of this scope would not have been possible without a lot of hard work and a lot of support from many people and the authors would like to thank the individuals who helped to make this book possible.

First, without the support of Professor Dr. Dr. h.c. Horst Albach from the *WHU Koblenz* the study would not have been possible. We are particularly thankful to Hans-Botho von Portatius as well as Bolko von Oetinger and Andy Blackburn from *The Boston Consulting Group* for some outstanding contacts. Thanks also to Gert Purkert, Rainer Gawlick, Ralf Müller and Sigurd Strack from *McKinsey&Company* as well as Gerhard Schulmeyer from *Siemens Nixdorf Informationssysteme* for their support of the study and Walter Kümmerle who generously supported our initial research by granting us admission to the Baker Library of the *Harvard Business School*.

In addition, we would especially like to thank our School, the *Wissenschaftliche Hochschule für Unternehmensführung, Otto Beisheim Graduate School of Management*, and *McKinsey&Company* which provided the funding for this project.

The point of view in this book represents not only our research efforts but the active involvement and support of a large number of practitioners. Our work would not have been possible without the cooperation of the large number of companies and managers who generously gave their time and shared their perspective: Michael Allen, Jeffrey Beir, Prakash Bhalearao, David Bohnett, Joost Bonsen, Doug Brackbill, Jean-Pierre Braun, Daniel Bricklin, David Cane, Nassib Chamoun, Hal Charnley, Pehong Chen, Yonald Cherry, Ronald Croen, Dan Cunningham, Werner Daghofer, Vinod Dham, Tim Dick, Gaurav Dhillon, Jay Eisenlohr, Michael Eisenson, William Elder, Nancy Ellickson, Ian Eslick, Bob Evans, Gregg Favalora, Peter Fenner, David Fischer, Richard Fleischmann, John Freeman, Dale Fuller, Terry Garnett, Bill Giudice, Mark Gorenberg, Ralph Grabowski, Jonathan Gworek, John Hamm, John Harrington, Tom Henn, Mark Hoffman, Ven-Jai Hsieh, Wes Patterson, Bill Porter, Mitchell Kapor, Daniel Keshian, Keith Krach, Richard Kramlich, Scott Kriens, Rob Kuhling, Tsu-Chang Lee, Paul Lego, Pamela Lipson, Andy Ludwick, Rakesh Mathur, James McCoy, Roger McNamee, Tom Melcher, Kenneth Miller, Kenneth Morse, Douglas Murphy-Chutorian, Leon Navickas, Nico Nierenberg, Donald Parker, Dave Peterschmidt, Kim Polese, John Preston, Frank Quattrone, Jean-Yves Quentel, Arvind Rajan, Narayanan Ram, Alan Ramadan, M. Rangaswami, Douglas Ranalli, Sajit Rao, Pamela Reeve, Alex Rigopoulos, Zack Rinat, Kevin Rivette, Brian Robertson, David Robertson, Mario Rosati, Sharam Sasson, Mitchell Sayare, Mathias Schilling, Peter H. Schmidt, John Scott, Ravi Sethi, Nimish

Shah, Ranjan Sinha, David Skok, Michael Skok, Eric Spitz, Randy Thomae, Jeff Tonkel, Howard Torf, Lisa Underkoffler, Mahesh Veerina, Iain Watson, David Whorton, Emerick Woods and Chris Zuleeg.

To you, we hope that this book helps all the people who hold the dream of building a successful and enduring company.

Vallendar, Germany, September 1998

Max Finger (max_finger@whu-koblenz.de)

Oliver Samwer (oliver_samwer@whu-koblenz.de)

Table of Contents

1. Introduction.....	1
1.1 Purpose of the Study	1
1.2 Research Design.....	1
 I. CREATING A BUSINESS	
2. The Opportunities.....	7
2.1 Types of Opportunities.....	7
2.1.1 Opportunities based on a Paradigm Shift.....	7
2.1.2 Opportunities based on a New Product or Business Model	8
2.1.3 Opportunities based on a Me-too Product.....	8
2.2 Opportunity Recognition.....	8
2.2.1 Markets that change	9
2.2.2 Markets that are badly understood	9
2.2.3 Markets that are large.....	9
2.2.4 Markets that are fast growing.....	10
2.2.5 Markets where the Incumbent Players cannot move	11
2.2.6 Markets where there is little Competition	12
2.3 Process of Opportunity Recognition	13
2.3.1 Intuitive Approach	13
2.3.2 Analytical Approach	13
2.4 Refinement Process	14
2.5 Research Process.....	14
2.6 General Advice on the Idea Generation Process	16
2.7 Evaluation of a Business Idea	19
3. The Homework.....	20
3.1 Defining the Market Need.....	20
3.2 Defining the Customer	23
3.3 Defining the Market Size	23
3.4 Defining the Market Timing	24

4. The Window of Opportunity.....	26
5. The Background of the Entrepreneur	28
6. The Founders.....	30
7. The Role of the Founder	32
7.1 Management of the Company	32
7.2 Ownership of the Company.....	36
7.3 Building a Sustainable Business	37
8. The Ideal Startup	38

II. LAUNCHING THE BUSINESS

9. The Location.....	39
10. The Advisors.....	41
11. The Support Players	43
11.1 Legal Counsel	43
12. Intellectual Property	45
13. The Funding.....	46
13.1 Milestone Financing.....	46
13.2 Risk Identification and Elimination	47
13.3 Sources of Funding	49
13.3.1 Bootstrapping.....	49
13.3.2 Sources of Outside Equity.....	50
13.3.2.1 Angel Investors	50
13.3.2.2 Venture Capital	51
13.3.2.3 Corporate Investors.....	55
13.3.2.4 Initial Public Offering.....	56
13.3.2.5 Funding Strategy.....	58
13.4 Choosing an Investor	58
13.5 General Advice on the Funding Process	60

14. The Culture.....	66
14.1 Importance of Culture	66
14.2 Values	67
14.3 People	69
14.3.1 Recruiting People.....	69
14.3.2 Attracting People	76
14.3.3 Finding People	77
14.3.4 Keeping People	79
14.3.5 Dismissing People.....	80
14.4 Mission.....	80
14.5 Information Flow	81
14.5.1 Free flow of information	81
14.5.1.1 Open-door, walk-in Meetings	81
14.5.1.2 Sitting in Cubicles.....	82
14.5.1.3 Status Meetings and Reports.....	83
14.5.1.4 Personal Whiteboards	84
14.5.1.5 All-Hands-Meetings.....	84
14.5.1.6 CEO Lunches and Employee Breakfasts	85
14.6 Communication.....	86
14.6.1 Formal and Informal Communication	86
14.6.2 Direct and Open Communication.....	86
14.7 Decision Making.....	88
14.8 Result Orientation and Management-by-Objectives.....	92
14.9 Key Characteristics of a Successful Culture.....	93
14.9.1A Team Work Culture	94
14.9.2An Egoless Culture	94
14.9.3A Meritocracy of Ideas	96
14.9.4A Risk Culture	97
14.9.5A "no status, no ego, blue-jeans" Culture	98
14.9.6A "don't-let-the-others-down" Culture.....	101
14.9.7A Fun Culture	101
14.9.8A Family Culture	102
14.10 Keeping the Culture when the Company is Growing	103
14.11 Leadership.....	104
14.11.1 Building a Vision.....	104
14.11.2 Building Teams.....	107
14.11.3 Reinforcing the Culture	109
14.11.4 Creating a Sense of Urgency.....	110

14.11.5 Qualities of a Leader.....	111
15. The Management Team.....	114
16. Technology and Market Orientation.....	118
17. The Flexibility.....	120
18. The Focus.....	124
19. The Execution.....	127
20. The Network.....	130

III. GROWING THE BUSINESS

21. The Partners.....	134
22. The Game for Mindshare	137
23. The Breakthrough.....	140
24. The First Customers.....	141
25. The Competition.....	144
26. The Growth Management	147
26.1 People	147
26.2 Processes	148
26.3 Management.....	149
26.4 Communication	151

IV. THE ENTREPRENEUR

27. The Motivation.....	153
28. The Doubts.....	154

29. The Sacrifices.....	155
30. The Qualities of an Entrepreneur.....	156
30.1 Visionary.....	156
30.2 Confidence.....	157
30.3 Team Spirit	158
30.4 Risk attitude	159
30.5 No Fear of Failure.....	159
30.6 Ability to Learn.....	160
30.7 Entrepreneurship is very personal	160
30.8 Sense of Reality	161
30.9 Persistence	161
30.10 Commitment.....	162
30.11 Experience	163
30.12 Salesmanship.....	163
30.13 Standing of an Entrepreneur.....	164
31. Summary.....	165
32. Appendix.....	166

1. Introduction

1.1 Purpose of the Study

This book documents empirical research bearing on the question of how to start, build and grow a successful venture. The research is based on interviews with America's most successful high-tech startups. The sample includes 75 entrepreneurs, 11 venture capital firms, 2 banks, and 2 law firms in Silicon Valley and Massachusetts as well as 2 professors for entrepreneurship. In the book we try to articulate some of the key characteristics entrepreneurs and other people involved associate with successful ventures. Specifically, the book develops a series of formal propositions concerning the lessons for entrepreneurs. These propositions can serve as points of inspiration for all people who have the dream of setting up their own business. A review of the literature and practice suggest that the notions regarding new business creation and venturing are still very undeveloped. This book tries to explore the topic through an impressive field research. For entrepreneurs this study can provide concrete lessons for creating a successful venture.

1.2 Research Design

The purpose of our research was to try to develop a more complete understanding of what it takes to build a successful company. We interviewed a broad base of entrepreneurs and other people involved such as venture capitalists, investment bankers and lawyers regarding the factors they most commonly associate with what they view as successful ventures. It was our hope that we would develop an independent, practitioner-originated list of the common characteristics of high-performing ventures and provide would-be-entrepreneurs with hands-on advice on how to create and grow a successful venture. We adopted relatively unstructured research methods which we felt would be most useful in providing new insights into business creation. In order to fulfill our research objectives, we decided that it was necessary to conduct a large number of open-ended interviews with entrepreneurs and other people involved. As a result, we selected a sample of 92 sites for interview purposes. Included in the sample were entrepreneurs recognized as having launched America's most successful startups and leading venture capitalists, investment bankers, and lawyers as well as professors for entrepreneurship. The sample is summarized in Table 1.

Table 1: Interview and Survey Sample

<i>Company</i>	<i>Interview Partner</i>	
Actuality Systems	Gregg Favalora	Founder
Actuate Software	Nico Nierenberg	President and CEO
Agent Audio	Randy Thomae	CEO
Alphablox	Michael Skok	Chairman and CEO
Ambit Design	Prakash Bhalearao	President and CEO
Ariba	Keith Krach	President and CEO
Artel Video Systems	Hal Charnley	President and CEO
Aspect Medical Systems	Nassib Chamoun	President and CEO
Atlas Ventures	Jean-Yves Quentel	Associate
BCN Data Systems	Arvind Rajan	Marketing Manager
Berkeley Networks	Ravi Sethi	Chairman, President and CEO
Bertelsmann Ventures	Mathias Schilling	Associate
Beyond Software	John Harrington	Vice President and Chief Financial Officer
Broadvision	Pehong Chen	President and CEO
Centra Software	Leon Navickas	President and CEO
Chromatic Research	Wes Patterson	CEO
Cloudscape	Howard Torf	Vice President, Engineering
	Tom Henn	President and CEO
Com21	Peter Fenner	President and CEO
	David Robertson	Chief Financial Officer, Vice President of Finance
Commerce One	Mark Hoffman	Chairman and CEO
Connected	David Cane	CEO
Corsair	John Scott	Vice President Strategy
DMG Technology Group	Frank Quattrone	CEO
Eclipse Surgical Technologies	Douglas Murphy-Chutorian	CEO

Envive	Jeff Tonkel	President and CEO
Escalade	Jean-Pierre Braun	President and CEO
Etrade	Bill Porter	Founder
Extensity	Sharam Sasson	President and CEO
Genus	William Elder	Chairman
Geocities	David Bohnett	Chairman and Founder
Hal Investments	Iain Watson	Partner
Harmonix Music	Alex Rigopulos	President and CEO
Harvard Private Capital Group	Michael Eisenson	President and CEO
Hummer Winblad	Mark Gorenberg	Partner
I-Cube	Ven-jai Hsieh	Chief Technology Officer
Imagen	Sajit Rao	Founder and Chief Technology Officer
	Pamela Lipson	Founder, President and COO
Immunogen	Mitchell Sayare	Chairman and CEO
Informatica	Gaurav Dhillon	CEO
Inktomi	Dave Peterschmidt	President and CEO
Instinctive Technologies	Jeffrey Beir	President and CEO
Integral Capital Partners	Roger McNamee	Partner
Junglee	Rakesh Mathur	President and CEO
	Werner Daghofer	Manager, Operations
Juniper	Scott Kriens	CEO
Kapor Enterprises	Mitchell Kapor	President
Kleiner Perkins Caufield & Byers	David Whorton	Associate
Lightbridge	Pamela Reeve	President and CEO
Liquid Audio	Richard Fleischmann	Senior Marketing Director
Magnifi	Ranjan Sinha	President
Maker Communications	Bill Giudice	President and CEO
Marimba	Kim Polese	President and CEO

Marketing Vice President	Ralph Grabowski	Vice President of Marketing
Massachusetts Institute of Technology	Kenneth Morse	The MIT Entrepreneurship Center, Managing Director
Massachusetts Institute of Technology	Joost Bonsen	\$50k-Alumnus
Midnight	Peter H. Schmidt	Division Manager
Morse, Barnes-Brown & Pendleton, P.C.	Donald Parker	Partner
	Jonathan Gworek	Associate
NEA	Richard Kramlich	General Partner and Co-founder
Neoparadigm Labs	Tsu-Chang Lee	Chairman, President and CEO
Netdynamics	Zack Rinat	President and CEO
NetXL	Narayanan Ram	President and CEO
Nuance Communications	Ronald Croen	President and CEO
Onset Ventures	Rob Kuhling	General Partner
PlanetAll	Brian Robertson	Co-Founder and Chief Technology Officer
Quantum Energy Technologies	John Preston	President and CEO
Quokka Sports	Alan Ramadan	President and CEO
Ramp Networks	Mahesh Veerina	President and CEO
Rendition	Jay Eisenlohr	Vice President of Business Development
Sand Hill Group	M.R. Rangaswami	Founder
Sentient Networks	Nimish Shah	President and CEO
Silicon Spice	Vinod Dham	President and CEO
	Ian Eslick	Founder
Silicon Valley Bank	David Fischer	Executive Vice President
SilverStream	David Skok	Chairman and Founder
Smartpatents	Kevin Rivette	CEO
Snap!	Tom Melcher	General Manager
Sportscape.com	Dan Cunningham	President

Starburst	Kenneth Miller	Chairman and Chief Technology Officer
Technology Strategy and Alliances	Bob Evans	Partner
Terastor	James McCoy	Chairman and CEO
	Nancy Ellickson	Director, Corporate Communications
Trakus	Eric Spitz	CEO
Trellix	Daniel Bricklin	Chief Technology Officer
	Lisa Underkoffler	Vice President, Product Management
Unifi	Douglas Ranalli	Chairman and CEO
University of California, Berkeley	John Freeman	Haas School of Business, Professor
Venrock	Terry Garnett	Venture Partner
Vicinity	Emerick Woods	President and CEO
Virage	Paul Lego	CEO
Virtual Ink	Yonald Cherry	Founder and Chief Technology Officer
Visto	Doug Brackbill	President and CEO
	Chris Zuleeg	Director of Operations, Founder
Vice PresidentNet Technologies	Michael Allen	President and CEO
Weblinc	Daniel Keshian	President and CEO
Whistle Communications	John Hamm	President and CEO
WhoWhere?	Dale Fuller	CEO
Wilson Sonsini Goodrich & Rosati	Mario Rosati	Attorney at Law
Worldpages	Tim Dick	Vice President of Business Development
	Andy Ludwick	

Individuals are identified here with the company or organization they worked for by the time of the interview.

Unstructured interviews were conducted with the Chief Executive Officers (CEO) or founders of the entrepreneurial ventures, the principals of the venture capital firms, investment banks and law firms. The definition of a "successful venture" used in the discussion was based upon a list of "America's 100 Hottest Private Companies" by Upside Magazine, May 1998. The Magazine selected 100 private high-tech companies among hundreds of fast growing ventures as the most promising startups of America. The companies had between 2 and 200 employees and were all founded within the last five years. They had experienced growth rates of between 100 and 500% per year. Some of the companies filed Initial Public Offerings (IPO) as this book was being written and by the time you read this, more companies on the list may have gone public.

In addition we broadened the sample by adding a number of companies which were selected as winners in the MIT Entrepreneurship Competition. Also we included some high-tech companies which were founded in the late 1980s. Last but not least we included people who are fixtures of the entrepreneurial scene in America as well as professors for entrepreneurship from Berkeley and MIT.

No attempt was made to direct the definition of characteristics by providing an operational definition of "success" since any exact performance standard would have introduced unwanted bias. The interviews were recorded and transcribed to ensure a complete record of the discussion. The information gathered during the course of the interviews was collected and discussed by the authors as a group. A series of concrete propositions were developed based on the information from the field interviews. The propositions were then grouped by the authors into logical categories. No attempt was made to rank the characteristics or propositions since a major objective of the study was to outline a complete set of characteristics common to successful ventures across markets and industries. Also, as part of our research effort we attempted to compile a list of fatal flaws which entrepreneurs associated with ventures which had a high likelihood of failure.

I. CREATING A BUSINESS

What's important in the beginning? That's a very good question you ask. Because if you don't have a beginning, you can't have a middle, you can't have a grand finale for the company. (Gaurav Dhillon, Informatica)

2. The Opportunities

2.1 Types of Opportunities

The first thing you need to build a company is an opportunity. Successful ventures are usually built on one of the following three types of opportunities.

2.1.1 Opportunities based on a Paradigm Shift

Opportunities based on a paradigm shift mean that opportunity exists because of both a new market and a new product. A paradigm shift is a fundamental change that changes the way people behave and business is done. Paradigms do not change every day and such fundamental changes probably occur only every 10 years. A paradigm shift usually creates a whole new industry and market. Examples for how a paradigm shift has created new industries are the semiconductor industry in the 70s, the personal computer industry in the 80s and the internet industry in the 90s.

Such new markets are often called evangelical markets, because in a paradigm shift the market is not yet existent and the early players have to develop the market. Thus companies that take advantage of a paradigm shift often enter untouched market space and there is little understanding of the market. Examples of such companies are *Netscape* and *Amazon.com*. The early companies in a new market face a tremendous challenge. They have to cause a behavior that does not exist today to come into existence and to become popular.

I would probably not try to be a pioneer again. Trying to create a market is a very difficult challenge. Especially if this is your first time around. It is an incredible thing to do a market where there are no models, no analogues and you cannot find somebody who has done before like you. For that reason it is difficult to attract investors, to attract customers because they are not used to paying what you are providing. (John Harrington, Beyond Software)

Opportunities which are based on a paradigm shift are therefore very risky, but they also offer tremendous rewards.

2.1.2 Opportunities based on a New Product or Business Model

Compared with a paradigm shift, here opportunity exists because of a new product or new business model in an existing market. It is very difficult to create a market from scratch such as in a paradigm shift, and indeed most successful companies in Silicon Valley are rather based on this concept of a new and successful product in an existing market. The most interesting existing markets are so-called flash point markets, meaning a market where you have pressure on two perspectives: There is a problem that is very pressing, painful, and when you inject a solution into that market, the market ignites. Suddenly there is a solution space and the product gets consumed in huge amounts because there had been latent demand in the market. The importance of the need will determine the rate at which the new product is accepted. If the need is urgent, it will be a flash point market that ignites. If the need is less pressing it will be more of an evolutionary development.

2.1.3 Opportunities based on a Me-too Product

Here opportunity exists because of an existing but improved product in an existing market. The product is usually faster, cheaper or better. Successful me-too products are usually superior in an order of magnitude in one of these dimensions.

2.2 Opportunity Recognition

To find these kinds of opportunities you should look for markets that have some of the following characteristics.

2.2.1 Markets that change

If there is a single thing that gives you an opportunity to start a business, it is change. If everything stays the same, there is no room for a new company. Change is good. The more change, the better. To start a successful business you have to look for major shifts, so-called points of inflection. Otherwise all you can do is cheaper, faster, or better. Once you see the shift, the key is to understand what the market opportunity is. It is not enough that the market is going through change, but the market, especially the customers themselves, need to be receptive to a change.

Proposition: Look for an industry that is going through change and where the market is receptive to a change.

2.2.2 Markets that are badly understood

There are large markets that are well understood and well served by able suppliers. There are small markets that are poorly understood and poorly served, but nobody cares, because they are small. The more well understood the markets are, the less the opportunity. The best opportunity is when you find a market that is large and is not well understood. New markets are often little understood.

Sometimes, it can make sense to go into a very unsophisticated industry, where for instance the least number of MBAs are. These markets are often badly understood and you can bring in professional management and concepts from other more sophisticated industries.

Proposition: Find a large market that is not well understood.

2.2.3 Markets that are large

If the market opportunity is huge, the potential of your company is huge. If you do not have a significant market opportunity from day one, you are putting yourself into a small box.

I used to live above a small pizzeria and I knew the guy who owned the place. He worked 12 hours a day, seven days a week. He was in there all the time and worked so

hard for his little restaurant. I realized one day that I have to work just as hard for a restaurant as I do it for a multi-billion dollar company. If I have the choice, why not go for the big idea? (Ian Eslick, Silicon Spice)

Businesses have a natural scale. Keep that in mind when you choose an opportunity. Therefore you should try to visualize the size of the market you are playing in and the scale that the venture can achieve if it is successful. You can visualize that in advance. You will not get the size of the opportunity precisely, but you can get it in an order of magnitude: Is it a million dollar business, is it a hundred million dollar business or is it a multiple billion dollar business? One of the ways to figure out how big you can get is to look around at your potential competitors. If they are all in the multiple hundred millions of dollars, that tells you, if you are successful, you can be in the multiple hundred millions of dollars. Therefore you should ask yourself what the natural scale of the business is that you want to do. The scale of your venture will indicate how big your company can become, how big you need to become to be able to compete, how much money you have to raise, and whether you have to break it down into a series of small steps to get there. You should always try to visualize the competitive natural scale because it is a good sanity check.

Proposition: Choose a large market opportunity and check the scale of your competitors to visualize potential company size.

Besides, you need to find a market where the gap between the degree to which the needs are met today and the size of the latent demand is large. The larger the gap between the degree to which its needs are met today and the size of the latent demand, the bigger the opportunity. Find that disparity in demand versus supply and figure out what can be done to address that gap.

Proposition: Find a large market where there is a big gap between the degree to which its needs are met and the size of the potential demand.

2.2.4 Markets that are fast growing

The market that you are looking for is not so much a large market that is fixed, but it has to be fast growing. The reason that fast growing markets are important is because by definition in a fast growing market there are lots of new decisions being made. The key is to become a participant in some of the new decisions that are made. In a market where there is growth and there are new decisions to be made you do not have to cause

someone to stop doing business with their current company, or to throw out what they have already bought. When customers go out to buy more, they simply divide their new businesses. Some to the old company, some to the new one. If the market is growing fast enough that is going to be a relatively painless thing for the buyer to do because they are interested in having more suppliers, more than one at least, in order to ensure some competition. It is also not going to be so painful for the other supplier that is already in the market because they are still going to get orders, and they are still going to get revenues, so that they are still going to grow.

If you enter a market that is fixed in size and is not growing so that you getting an order means, in order for you to eat, you have to take food from me, you are going to have a much more aggressive fight for that food. If however there is more food than you and I can eat, I might still prefer that you eat none of that, so that I can save more for later, but because I am not starving and you are not threatening that, the need to compete with you is not as pressing.

Proposition: Find a fast growing market, because a fast growing market means a lot of new decisions will be made by the customers. Also a fast growing market allows more than one company to flourish and be successful.

2.2.5 Markets where the Incumbent Players cannot move

Take a market where due to change new opportunities exist, which have not been exploited by the dominant players because of institutional resistance or other limiting factors on the existing leaders of the industry. So there is some reason why they cannot go after that opportunity. The following example illustrates this situation: *Amazon.com* can sell books online against *Barnes&Noble*, because *Barnes&Noble* cannot afford to charge less online than they do in the stores, and because the stores cost so much money to maintain, they cannot afford to go below certain price differentials. So *Amazon.com* can always have lower prices. Change creates these kinds of opportunity because for the incumbent players it is often very difficult to change what they do. Even though you might be smaller than the incumbent you have the advantage of starting over. Therefore you should look for an opportunity where the incumbent cannot move quickly enough. A situation where there is an entrenched competitor in the sense that there is a big labor problem, so that the incumbent cannot fire all these people, or in the sense that the incumbent has got capital investment that they have invested in and they cannot change. When such a situation occurs you can step in and over a certain period while the entrenched competitors have inertia to respond you can come in and steal a lot of their share.

The major changes in industry often come from outside the industry, because people within the industry often do not see what can be done. Or they see it but do not want to change certain things. *The business looked like a great opportunity, there was a lot of turmoil and chaos in the industry and nobody knew who would be successful. Cowboys and Suits, young entrepreneurs with great ideas but without any experience were facing older inflexible corporations.* (Pam Reeve, Lightbridge)

So you want to have an opportunity that exists because of a change in the world that has already taken place, where the existing companies which ought to own that market opportunity cannot for reasons that are institutional, financial, structural or cultural, even in the best of terms, do what your new company is doing.

Proposition: Look for a market where change has created new opportunities which the incumbent players due to limiting factors cannot or not as fast take advantage of but which you can use because you start over again.

2.2.6 Markets where there is little Competition

It does not help you if you have a good idea and 20 other people have the same good idea. What happens is that people get ideas and they spread around really quickly. You have to look at your chances of succeeding not based just on what you are doing, but on the competitive environment. You just cannot assume that you are going to be better than the other 19 companies. Because you are not necessarily always smarter, or better financed or more experienced. Just take Electronic Commerce for instance, everybody is doing Electronic Commerce, it must be literally a thousand companies, though you know that only 20 or 30 are ever going to make any money. You really need a pretty free field initially, that does not have a lot of competition. Free run is what it is sometimes called. Because it is tough to build a big company quickly if you have a lot of competitors for the same little emerging space, or if you are trying to sell against a really big competitor who is doing the same as you are. That is really tough.

Proposition: Choose an opportunity that does not have a lot of competition. You have to look at your chances of succeeding not based just on the thing that you are doing, but also based on the competitive environment.

2.3 Process of Opportunity Recognition

There are fundamentally two approaches to discover a business opportunity. One is a more intuitive process, the other an analytical approach.

2.3.1 Intuitive Approach

There are entrepreneurs who have a passion for something and out of that passion they develop a business. People who have built a business out of their hobby are for instance, Steve Jobs (*Apple*) and Bill Gates (*Microsoft*). You can tell if you are such an idea guy. If you have been writing down your ideas over the last two years, go back and look at these ideas and see how long it took someone else to come out with the same idea. If they came out with it within six months of you writing it down, it was not your idea. It was not an original thought. Someone else already had thought of it and he was producing 18 months beforehand. If it took someone else 18 months to come up with this same idea, you are an idea guy.

2.3.2 Analytical Approach

There are other entrepreneurs who have built successful companies after they had gone through a rigorous analytical process in the search for an opportunity. Jeff Bezos (*Amazon.com*) and David Bohnett (*Geocities*) have developed their business ideas in a more analytical fashion. Both made lists of the kinds of businesses that would be business opportunities with the internet. They projected which of them had commercial potential. Both were very analytical in the process. Both were industry outsiders. One had a consulting background, the other had a background with an investment firm. Both were involved with computers and systems and came across the internet in 1994. None had anything to do with online communities or books before they started their company.

Jeff Bezos for instance was sitting there working for an investment trading firm and the thing that was impressive to him was the growth of the internet. It was growing at 2000% per month and he knew he wanted to do a business that was taking advantage of the internet. And he asked himself what kind of businesses would really benefit from the internet. He just tried to rank order 30 different businesses. He did not know anything about books. But he felt that after really studying what the internet would truly enable that was different, that books just fitted it to a tee. So he went after it a big time.

2.4 Refinement Process

First, you should have a very clear idea of the opportunity. You need to answer the question why do you believe opportunity exists. The second question that you must answer is why does your product or service create value. It must have a compelling value proposition. So that when you go to a company you can say: "If you buy this product, here is the value you get: in two years you can save 2 million dollar or in one year your sales will increase by so much in value." The third is that you need to understand clearly why do you think you will win. What is your competitive advantage? If you cannot clearly articulate why you are going to beat the competition, you probably do not understand it. Then you are gambling.

You really need to research the idea until you can clearly articulate the answers to these questions. Because once you can answer these questions, you will end up with a business that is based on a very well understood reason for existence. You will then know why it exists. And that will then help you write the business plan. And you will be able to tell the story to the people you need to hire and they will say, it all makes sense, I want to work with you, and then they will advance that vision, because they understood it, and they will be able to know what to do. It is a cycle of doing things for the right reason.

Proposition: You need to research the idea until you can clearly articulate your business. You need to be able to answer the question why there an opportunity exists, how your business creates value and why you can do it better than anyone else.

2.5 Research Process

When you have discovered an opportunity you should then go to research it. To learn about industries, you should go to the library and read trade journals. And if you spend a couple of days, sometimes a couple of weeks, reading the back issues of trade journals in sequence you can learn everything about an industry and what is going on in that industry. That is where you get your initial background information from. Learn and understand the economic drivers of the industry, and how the value chain works and where your company fits into it. Then go and talk to people in the industry and call them up. For instance the authors of the articles that you read. Tell them you read their article, that it did not make any sense to you, but that this idea makes sense to you. Challenge them and test your ideas on them. You need to ask them: "What do you think of that, would you buy that, how would you change that?" And they will say: "Talk to this person." And then you go and talk to that person.

You should be very open with your idea. Do not be worried about someone stealing your idea. You should be worried more about whether your idea is stupid. Just say to people "This is my idea, what do you think about it?". You will get a lot more value out of using their intelligence to clarify your idea, to get their piece to the puzzle than keeping the idea to yourself. In fact, everyone has a little piece of the big puzzle. Everybody will understand it from his perspective, and you will end up with many different views and a broad perspective. There is even a theoretical concept for that. According to the surface theory, it makes sense to create a large surface i.e. to make your idea broadly known so that you get a lot of input from people and people start to associate you with a certain topic and will refer you to other people. The more knowledgeable the people you find to talk to, the better.

I tested my idea for Unifi by calling a leading researcher at AT&T. I did not give the idea to him, I said: "This is what I believe in, does that make any sense to you?" The guy said: "Yeah, this sounds like a great idea." I said: "Thank you very much." And I started the company. (Doug Ranalli, Unifi Communications).

If you do not ask people who know about the topic, you will never know if your idea is any good. Do not treat your idea like it is a gift from god, actually chances are that it is stupid. You should find out what is wrong with it rather than worry about protecting it.

Proposition: Be open with your idea. Chances are that it is a stupid idea.

It is at least a six-month process to come up with an idea and get it to the point where you are ready to ask somebody else to start working on it. In these six months, you need to research exactly what you want to do, what the hurdles are, whether they are technical, legal, financial or whatever, and how you want to break the building of the company down into stages.

There is often a lot of pressure on you when you are searching for an opportunity. Everybody is going to ask you all the time: "When are you going to start, what business are you going to start, why do you want to choose that one?" Take enough time to pick the idea. You do not want to be pressured to pick an idea until you really believe it is the right one. It will take a lot of patience. Many people are going to have opinions about that: "He is never going to come up with an idea, the standards are too high, this is just a game." It will take a lot of confidence to wait it out.

Proposition: Take enough time to pick and articulate the idea. Do not put yourself under pressure neither from yourself nor from others.

If you have a job or are at school it sometimes makes it easier to look for an idea, because you might feel less pressure and thus are less likely to jump in on an idea. At the same time, however, you have less time to look for an idea and to concentrate on researching it. Therefore sometimes it can make sense to go on a sabbatical. You should take a long vacation, start to surf the internet, talk to a lot of people, and have long business lunches. Important is that you do not let yourself be pressured to pick an idea.

Another way is to research always two ideas at the same time. Because if you just research one idea you have a tendency to make it look good. If you are researching two at a time you always compare them. And you end up picking the best one. And then you get another one and compare them again. You are constantly refining the best one while looking for reasons why this idea is still better than idea number 4 and 5. Often this is better than focusing all your creativity on one idea and trying to force an idea to look like a success.

2.6 General Advice on the Idea Generation Process

Opportunities are in most cases a function of identifying a need. The type of idea that you are looking for should start with understanding a market need. If there is a need in a market and you can embrace and understand that, then you will have what leads to an inspiration. And make sure that this need is broad enough in scope. And that the solution is going to be unique enough that it allows you to benefit from the solution for a reasonable time frame. And it has to be doable within a reasonable time frame with a reasonable amount of money. The more you can think like a consumer, a user, addressing certain problems the better chance you have of creating something new, compelling, and useful that solves a need.

Proposition: Build your idea on a market need.

Whenever opportunity exists, because you are taking advantage of a regulatory environment, you should be very careful. You always need to ask yourself what else you can do to create long-term competitive advantage. Because if your business is only focused on that regulatory advantage, the moment the regulatory advantage goes away, you are done. Therefore do not count on regulation to drive your business. Also do not

build your business on fuzzy topics as for instance environmentalism, but on fundamental economics.

Proposition: Never rely solely on a regulatory environment for an advantage, because it can change. Build the foundation for long-term business success on fundamental economics.

Do not start a business where you can look out five years and you can realistically anticipate a fundamental change in the business e.g. a deregulation. It is a dangerous strategy if you think you can build up the business fast enough and harvest it before that happens. You do not get so much done in five years. It takes a long time to get people and structure ready. Often you are overly optimistic with regard to how long it takes to build a business. Therefore even if you see a huge opportunity for the next five years, be careful and often it is better to walk away from that.

Proposition: Be wary of businesses where you can realistically anticipate a fundamental change in the business in the next five years.

Sometimes you are in a market where for you to be successful requires that other companies are successful. There might be things that have to happen for everything to work and if something gets out of timing or does not happen, you will not be successful, because as it is not going to happen the market or the product will not be created. You need to realize that in order to create a new market or just a new product, you might need other companies as for instance your suppliers to create the necessary technologies. For example, when a company called *Slate* tried to create a new market in pen computing in the beginning of the 1990s it failed, because it succeeded to develop a software, but the operating systems were not there and the hardware vendors would not make the commitment to volume shipping. You should therefore never forget that you might depend on other companies and other things that have to happen for you to be successful, that you cannot control, or that do not only depend on your company entirely. You cannot control other companies. Therefore you should analyze how many and which pieces have to come together to make you successful and never forget that all the pieces have to come together, and that you might not be able to control all pieces. One of the things which will help you is to choose reliable partners. All in all, when you go into a situation you need to understand which are the things you can control and what are the things you cannot control like other vendors or technology suppliers for example.

Proposition: Your success might depend on other players that surround you and which you cannot control. Watch the players that you depend on.

Anybody can start a company. To be a successful entrepreneur, you do not have to come up with your own ideas. You have to recognize great ideas when you see them. It has nothing to do with having the technology in your pocket first. The issue is whether you can recognize the opportunity and convince the technology-guys to join you. You do not have to have the unique technological idea yourself. The ability to identify the opportunity, to clearly articulate the benefits and to bring the team together makes you an entrepreneur.

Proposition: Recognizing the opportunity is more important than having the solution in your pocket.

Details, even the product and distribution details, will evolve over time, during the months as you are talking to potential partners and investors. These facets of the business idea will go through a transformation and refinement process. However you need to have the core idea and vision in the beginning that drives your efforts and gives you focus.

Proposition: Many details will evolve over time, but you need to have a clear idea and be able to articulate your vision.

Also you need to do it the right way. Do not burn bridges, do not steal ideas, do not use the resources of another company, and quit your job before you start working on the new thing. Otherwise you will cause problems for years down the road.

Proposition: Do not steal ideas and pay attention to the terms of your employment contract.

Last but not least, you need to find an industry that you really enjoy, because an environment that you really enjoy will stimulate your creativity and ultimately make you successful.

Proposition: Go into an industry that you enjoy.

2.7 Evaluation of a Business Idea

In this context we quote from an interview with Mitch Kapor, the founder of *Lotus*, and one of the stars of the entrepreneurial scene in the U.S.:

I feel like I am revealing a professional secret. I play a little game with myself when I read a business plan for the first time. I give myself fifteen minutes to find the fatal flaw, the problem in the business. I try to think what could go wrong, why is it not going to work. I think about basics when I try to find the fatal flaw. Is there really an opportunity, is there really some need that's out there that this product or service is going to fulfill or is this some fantasy? Is there really a market for it?

And the second is, technologically can it really provide a superior solution or is that a problem that is so hard to do well? People are sometimes overpromising what technology can do.

Then it comes down to the people. You fundamentally are betting on the entrepreneur and the founding team. You can change plans to some extent but you cannot change people. Do these people have what it takes? Do they have the right skill set, can they work together, do they know what they have to add to it, are they experienced, have they done it before, are they really prepared for it? Once you think, okay, there is an opportunity here, they can probably make the product, there is actually going to be a market, you are going to get all this stuff really clear. Once you get over those hurdles, it's the people. Can these people really do it?

Is there an exit strategy. How do we get our money out?

Sometimes you can even take the same set of people and have them do a different startup, and one will fail and one will succeed. Sometimes the differences between success and failure is learning your lessons. Sometimes it is the opportunity, you just hit the wrong thing. There wasn't the market. Sometimes it is the execution. We didn't do what we needed to do. Sometimes people have not learned the lessons. Doing a startup successfully really consists of a series of tests. You flunk a test, you may flunk out entirely. The market is just not all that forgiving. There is some room to make corrections. You got to know where those are, you actually got to be able to deliver a product that people actually want and are actually willing to pay for. It's hard. (Mitch Kapor, Kapor Enterprises)

3. The Homework

Once you have recognized the opportunity you should do some serious homework before launching your business.

3.1 Defining the Market Need

First and foremost, you should spend a tremendous amount of time clearly understanding the customer needs. The first six months you should just talk to customers trying to understand their need and to validate your idea. Once you understand the need, it is then a lot easier to explore technology and design a product. Many startups burn through a lot of cash with a product or technology searching for a solution. They start building technologies and then later on they realize that not all of them are aligned to the right markets or needs. Market research is therefore the crucial reality check, which validates your idea and makes sure that you build the product to market needs, instead of following an "If we build it, they will come" attitude. The importance of market research cannot be overemphasized.

I would rather take more time for take-off and get my plane off the ground so that once off the ground I know where I am heading towards, than being the first one to take off, without knowing where I am going and in that process trying to go three or four ways. It is much better to do all the planning and thinking before. As an entrepreneur you are impatient. But your impatience should be as much trying to understand customer needs first and understanding them well, than your impatience of saying: "I am going to do something". (Magnifi, Ranjan Sinha)

It is really important to see that the clearer you understand the needs, the clearer you will be able to focus your team, and the clearer you will be able to set your priorities, because in a startup you have to say "No" to nine out of ten things.

Proposition: Spend a tremendous amount of time and effort on market research. Understanding clearly customer needs is the key to success.

Talking to customers is the most essential part of the homework because it is the single most important way for checking on an idea and finding out if it is real. Only talking to customers reduces market risk, which is the most difficult risk to address. Market risk

describes the uncertainty whether customers will be willing to buy your product. Talking with customers allows you to test your idea and to improve it and thus reduces market risk, which makes your venture more attractive to investors and ensures you a higher valuation since it reduces the likelihood of failure of your venture tremendously.

When talking to potential customers about the product, you almost have to simulate selling it to them already. You have to find the people you think would be the buyers for that product. And then you have to get the idea flashed out enough to pitch it as a product. So you need to say to people: "Here is what it would be, here is what it would do, here is how much you would have to pay for it, would you buy a product like that?"

Talking to customers is so important, that venture capitalists sometimes even get on a plane with the entrepreneur to meet potential customers. There they pretend to sell the product to them. They tell them that they are developing a product, describe the features of the product to them and listen to their reactions to it. Once they have talked with 20 or 30 people, they are going to have a pretty good feel for whether or not the product that the entrepreneur contemplates is going to fill a market need or not.

It is amazing how rarely this is done by entrepreneurs, though it is the most important thing, and it is really easy to do. You do not have to spend a lot of money on expensive marketing studies. Usually, five customers is enough. If you find five people you think should be interested based on your concept and you show your prototype to them and they really want it, the idea is real. They better really want it, because it is not enough that they think it is kind of a good idea. But if five people really want it you are probably onto something. If one or two or three people kind of do not understand, there are two possibilities: one is that it is not a good idea, the other is that you are not presenting it in a very coherent way so that they cannot understand. But do not go back to those customers, find five new customers.

Our experience here as we test new products is four to five customers tell us all we want to know. We know if it's going to fly or not. You need almost unanimous consent from your targeted customers. The reason is that if you can't identify the group of people who need the product enough to give a "yes" when they don't even really have to pull the money out of their pocket, then you do not have identified the customer for this product. (Nico Nierenberg, Actuate Software)

Proposition: There is nothing like talking to customers. It is the single most important part of your homework to tell if your idea is real.

In your conversations with potential customers you should try to see if there is a problem or not, and explain your product. In this process new problems will emerge and your problems will get validated or not and the need you perceived will get more focused. These conversations with potential customers are not to get the first design partners or your first customers. This exercise is only to see how acute the problem is and determine whether it is a mere headache or a serious problem into which the customer is ready to put millions of dollars to solve it. You have to find out whether the customer can live without your solution or if it is a mission-critical problem. Within that process you will come across an element of the problem that is mission-critical. And that is where you should focus your efforts towards and what you should try to solve. It is crucial to find a mission-critical problem. And that may be small initially to really focus on and build a technology to solve that one mission-critical problem. But then you get the customer's confidence. And you will spend time with the customer and begin to understand their other needs.

In terms of the process, the first few months are therefore just an exploration of the need without saying I have a solution or I can have a solution. Instead, you need to refine the problem to a point that it is mission-critical. If possible, the product needs to become a "must-have", a so-called painkiller, not just a "nice-to-have", a so-called vitamin. If it is a "must-have" product you have a killer. If it is a "nice-to-have" you potentially have a winner. Only after this exploration of the customer need, you should start to assemble technologies and prototype the product.

Proposition: Explore the customer need through conversations with the customer and refine the problem to a point that it is a mission-critical problem. Then assemble what it needs to build a solution.

The customer segment we are going after has changed. As a startup we were full of energy and we had all these dreams in our mind. We will be able to change the world, instead of taking them three years to adopt a new architecture, we will be able to get them adopt an architecture in six months. We believed in our dreams. But the fact is that we did not get them to make the decision about the architecture in six months. (Nimish Shah, Sentient Networks)

Changing customer behavior is not easy because the problems that your product is addressing did not just spring into existence yesterday. Your customers have been dealing with them one way or another for a while, and you must compete with whatever method they are currently using. The hardest sell may be when they are currently doing nothing. After all, doing nothing does not require writing checks, and whatever you are offering to them probably does.

Proposition: Do your homework on customer behavior. Do not believe that you can change customer behavior easily.

3.2 Defining the Customer

In your market research you have to find out who is going to buy your product. The customers you at first thought must buy your product, need not to be the ones who end up buying it. You must ask yourself who is the specific, well-defined customer who will buy your product. For instance, it is not enough to say that companies will buy it, because you cannot sell dog food to dogs, dogs do not buy dog food, people buy dog food, and they feed it to their dogs. Companies do not buy products, people buy products. A lot of startups come up with ideas, they present them and they say: "The reason why we are going to make a lot of money is that every company has the following problem." The problem with that is that corporations do not buy products, people in corporations buy products. A much better statement is therefore "there is a systems administrator at every company who has this problem". That really means "defining your customer". So you need to know who the exact buyer in the company is, whether it is the technical person, the finance person, or the marketing person. Also you need to know who the user is. User and buyer are often not the same.

Once you have defined the exact customer, you have to think how to make money with your product and you have to look back again at your product. All the elements need to fit. The way you deliver it, the way you price it, the way that you design it, the features and functions all need to point to that common thing, the customer.

Proposition: You need to be able to name and describe the exact customer of your product.

3.3 Defining the Market Size

To determine the size of the market, you need to go to potential customers and try to find out what they would pay for your product. This sounds easier than it is, because if the product is new most people have no idea what you are talking about. Especially if you are exposing people to something that does not exist, it is very difficult for people to imagine. Therefore speak to some early adopter customers who have a good sense for what things may be attractive. Besides, you need to build a prototype while keeping your costs low. Build a demo of what you are talking about. Thus you will give your potential

customers something to look at and to "smell" your product. There are many inexpensive ways to build prototypes. With this prototype you try to find out what people pay. Also find out what other players in the industry charge for similar products and what their revenue model look like. Then you start to model your pricing and revenue model. If your typical profile of a customer is this, multiply the number of customers with that profile and you are beginning to get the total available market. This is not rocket science. The fact is that you will never get real numbers. Often there is no complete data. One of the first things an entrepreneur learns to work with is incomplete data. You will never have perfect information so do not wait for that. You will never get a straight answer. You have to bet to your weaknesses. Entrepreneurs place bets - high value, high risk, high returns.

3.4 Defining the Market Timing

One of the most important success factors is whether the market is ready for what you will give him. You cannot be way out there. If you are way out there you are creating a market for somebody else, because by the time the market gets where you are now, you will be dead or your equity stake will be diluted completely. Besides, it will be very difficult to motivate your people.

You have to be ahead of the curve by a short period of time. You should therefore ask yourself if the market is ready for the product: "Am I too far ahead of the market? Am I a year or two or even three years too early and if I am how do I manage my cash reserves so that I am there when the market breaks?"

In order to determine whether the market is ready you need to speak to many potential customers. But you should not only test on the most advanced because they may as well be way too far ahead of the rest of the market. They are often not representative. Do not get caught by the glamour, but test on the average as well. Then you might be able to tell for instance that the world is not yet ready for your final product, but that it is ready for the first step towards your real product. In that case you should start with a small, maybe not yet so sophisticated product knowing that the market is not yet ready for the big product.

If you are ahead of the market and you are waiting for the market to catch up with you, you will need staying power. You have to keep company size and company salaries very small and build up a core competency that no one else has. This core competence will be critical when the market starts to develop. *We were definitely the first ones out there in*

the market. We were way ahead of the game and we struggled a lot. It did not go as fast as I thought it would and it was very painful to get through that. Still I am happy that we did start early because it put us in the position to have a lot of stuff when the market hit off. (Bill Porter, Etrade)

Proposition: Do not be too early, nor too late in the market. Be ahead of the curve by a short period of time.

4. The Window of Opportunity

When you want to launch your venture the fundamental question is how fast you need to build your company. The answer to this question depends on the time window of the opportunity. Is it a one-year-opportunity, is it a two-year-opportunity or is it a decade-opportunity? The size of the time window depends primarily on the rate of change in the relevant market and the intensity of competition. From this analysis of the time window of the opportunity the strategy for the launch and growth of the venture evolves.

If the time window of the opportunity is very narrow, as it is with most ideas in most markets today, you need to follow a fast-growth-strategy to be successful. Such a strategy has important implications for the resources you need in terms of capital and people. The second question therefore is how much money and people do you need to rapidly develop the company to a point that it can enter the market before that time window of opportunity closes. If you choose the fast-growth-strategy, the challenge is that you will have to do all the things that you usually do in sequence, you will have to do in parallel to be able to grow fast. Given small windows of opportunity, the fast-growth strategy is the strategy most companies in Silicon Valley follow.

If it is a long-term opportunity you have more time to build your company. So if you are starting in a sector where there is not a lot of competition or which is not changing rapidly, you can grow slower, because the time window for the market opportunity is larger. That has several advantages. First, the entrepreneur can learn fast enough to keep up so that he will not necessarily have to hire experienced management. Secondly, he has to give up less equity to outside investors. There are also lots of opportunities where companies get built over long periods of time. These companies are often built on retained earnings. The founder owns the company and often runs it as he was able to learn the necessary skills on the way along.

Often the time windows of opportunities lie somewhere between very narrow and very large. Sometimes, however it is an extremely hot opportunity and time is short as it was for instance with *Netscape*. *Netscape* had no alternative than to do it really quickly, because there was already a browser out there and they knew that *Microsoft* would move in there soon. Since the speed of change is increasing, the time window for many opportunities tends to get smaller so that for many ventures today some kind of fast-growth strategy makes sense. Our study focuses on these fast-growth ventures.

To illustrate the implications of this change in the environment with its emphasis on fast growth given smaller windows of opportunities we quote Mark Gorenberg from the venture capital firm *Hummer Winblad Venture Partners*:

The way software companies would start in the 80s is that first you hired some engineers and the engineers would build a product and then you would take it to beta. And then after beta you have a few customers and then you go out and hire a Vice President marketing. And then you set your positioning and then you get a Vice President of sales. And then you start to build up the team. A lot of companies did not even hire Chief Financial Officers in fact until they were very close to an IPO. Companies wanted to be very quiet, they didn't want potential competitors or large companies to understand what they were doing until they actually came out on the scene and could talk about it from a lot of reference sites.

Today the market is moving so quickly. Some people estimate three to five times faster in the internet era than it was in the PC era of the 80s. You have to do basically all these things in parallel. And declare victory very early and claim the turf and make sure that you can continually fortify the claim that you are already leading the market. In fact there are some markets today where there are hardly products out but the venture capitalists and the entrepreneurs in Silicon Valley they already know who the half dozen players are that are trying to claim that territory and it seems that the market is already mature even though they probably have not shipped much product yet and have not very many customers. Now you are doing it all in parallel and that requires a lot more of the team to be in place early and more money. You need to get your marketing in place before you have a product. You need to have a sales person out early and as soon as you start to have revenue you even have to start thinking to get a Chief Financial Officer. You are building the company much faster. You are acting like a very big company very early. Getting press on your side, getting partners on your side, and all the influencers in the industry on your side. So that you can create this aura of a company that has already succeeded almost when it started. It is a challenge from the aspect of doing all those things so quickly and have the bandwidth to do that and continually have enough funding available being able to do that. (Mark Gorenberg, Hummer Winblad Venture Partners)

5. The Background of the Entrepreneur

The media perception of what a great entrepreneur is, is a 23-year-old brilliant guy, coming out of school and deciding to start a business. The misconception is that what gets written about people like Bill Gates and Michael Dell, who started these companies at 18 and who simply came out of high school, is for the majority of the people a very unrealistic expectation. The typical entrepreneurs are people who have experience in the industry, who are rather in their mid-30s or 40s, who are often serial entrepreneurs, who have an industry track record and relationships with people in the industry. They have often worked for the most renowned companies such as *GE*, *Intel*, *Motorola*, *IBM*, *Microsoft*, *Lotus*, *Netscape*, *HP* and *Apple*, or *McKinsey* and *BCG*, before they decided to be an entrepreneur and launch a venture.

Most entrepreneurs get ideas while working in these large companies. The recognition of customer needs and technological solutions to these problems derive often from something you are working on while you are with a large company. The challenge is that you have to be already high enough up in the hierarchy to understand the big picture, but still low enough down to be close to the customer. Working with customers and spending time with customers as a product manager or marketing person is key, because it enables you to see an idea and to realize that the need is there. Being a product manager proves to be very valuable, because you will have to work with all the functions: engineering, development, marketing, sales, support, finance. You will learn, how to coordinate these functions and how to deal with the mentalities of the people in these functions. A lot of entrepreneurs have an engineering background, but you do not necessarily have to have an engineering degree to run a technology company. You just have to have a certain affinity, have to understand and like technology. Whatever your background, early in your career you should try to get an experience as broad as possible. To start a venture breadth of understanding a business is more important than particular functional skills.

Also, you need to try actively to get an educational background and experience that supports the venture. This really has to be an active approach. You have to put yourself in a position where you get involved in startups, you have to go to the places where entrepreneurs are, you have to go to places where you can get inspired, you have to meet people of similar spirits and build a network. In school you might participate in the business plan competition, take the classes where you will write a business plan, and take the entrepreneurial track at business school. That is where the people who want to do it are. *I met the two guys that I ultimately ended up being partners with, we were standing outside the Entrepreneurship Lab at MIT (Eric Spitz, Trakus).* Through such activities you will be meeting partners and ideas incidentally.

You should always go and associate with the best companies, where you can learn the most. The first entrepreneurial activity is often a great learning experience because nobody really knows what a startup is, unless they have been involved in one. You should be spending some years in gradually smaller environments to learn the dynamics of markets and company development that you need to know. And eventually you should try to gain experience in another startup before you start your own and make mistakes when you are still an employee.

Proposition: Try to get an educational background and experience that support the venture. Go to gradually smaller companies. Always go to the best companies, try to be on the cutting edge all the time, whatever you do.

6. The Founders

The most important thing to make a company succeed is people. When you start out a company, you start out with nothing but people. One person alone cannot do it. Getting everything set up, getting things organized, getting a core team assembled and the systems in place takes a lot more than just one person. A group of people, a team has to come together. They have to believe in the idea and they have to execute it. *These need to be people with mountains of energy, that are willing to go through anything that it takes to make the company successful. A team that will not take "No" for an answer. They have to be almost evangelical in their fervor to make something happen. And they have to be able to attract human and financial resources that allow them to execute in a very precise way against big odds.* (Nimish Shah, Sentient Networks)

The first thing you have to make sure when you put together a team of founders is that all founders share the same vision and the same values. The group can be heterogeneous, but the founders cannot have a different vision or a different set of values, because they will probably be partners for many, many years. You absolutely need to make sure that the goals of the founders are all aligned. Each of the founder has to be very sensitive what each of the other founders' objectives are. You have to recognize these and try to incorporate them, because otherwise you will have people from day one heading in fundamentally different directions. Only if you get a team of really great people together, who share the same vision, and work together well as a team, you will create a very strong foundation for the company. Because everything in the company originates from the founding team and will grow out of that.

Proposition: The founders need to have the same vision and values.

Secondly, the dynamics of the founding team are incredibly important. In fact the number one thing that can kill a startup before anything else can kill it, is the people. You should therefore never take on a partner unless the business really cannot succeed without both of you. You have to be that clear. Both have to be absolutely required. If only one person is going to be absolutely required, this imbalance will certainly create serious problems further down the road. Because when it comes down to work being put in, money being put in, and money being made, things are very delicate. These questions will only be solved and the team will only work if all partners are really required. Therefore before you start a business together, you need to address this question beforehand and you must ask not only whether each founder brings value to the company, but whether every single one of the founders is really required. All partners must absolutely be required to the

point that without them the business would fail. That is an unconditional prerequisite for a perfect partnership.

Proposition: All founders need to be absolutely required for the success of the company. Do not compromise, because if not all of them are really required the partnership is flawed from the very beginning.

Thirdly the chemistry between the members of the founding team is critical. And friendship helps. People you grew up with, people you know from school, people who cannot hide their true characters from each other, are the best partners. You do not really know whether you will function as a team, until you have worked together. Just knowing each other is not enough. There needs to be a germination period where you are working day in and day out on the same goals. It is like a courtship period, where the founders gain some experience in working together. Nevertheless there is a substantial risk of conflict and you might lose members of the founding team on the way.

Proposition: There needs to be a germination period where the founders work together day in and day out.

Fourthly, depending on the business model, a high-tech company should typically have at least three key people: It should have a market visionary, someone who understands the market, the customer and the problem the customer has. It also has to have a product or technology visionary, who understands the product and technology and how it might be applied, but does not necessarily understand all the problems that the market has. And it needs a business execution person, because the idea itself is worth zero. It is the execution of the idea.

Proposition: You really need a market visionary, a product or technology visionary and a business execution person.

Last but not least, the founders should hold equal stakes in the company so that they are in every respect equal partners. No matter who the idea had and who contributed what in the founding process, the founders should split the company equally among them. Otherwise some founders will feel like second-rate founders, which produces a flaw from the very beginning and which might have a strong negative effect on the way.

Proposition: The company should be split equally among the founders.

7. The Role of the Founder

The traditional type of company, where you own it all, control it all, keep it a certain style and retire on the basis of the company is called "lifestyle-business" in the US. But if you really want to make something in enterprise today and build a sustainable business, you should build a business to create wealth. In America the most successful companies are not built for the ego of the founders, so that they can run a company and be CEO, but to create wealth. The founder, and the company are distinct. It is all about creating value, and not about oneself, so that the founder does whatever it takes to increase the "value equation", i.e. the value of the company, irrespective of other personal interests.

Besides, often careers and lives are built around companies in a way where companies are considered much more as projects for some time, not necessarily as a lifetime thing. And projects sometimes succeed and sometimes fail. And then people go to other projects and then start again. Failing or succeeding with a venture is often followed by starting another venture. People frequently see the company as distinct from themselves and their career. They think about the company in a professional manner and that effects how they structure the company.

Proposition: Build a business to create value, not for your ego. Do whatever it takes to increase the "value equation".

This very professional view towards a venture in the sense that you do everything you can to increase the value of the company irrespective of all kinds of personal interests has important implications for the management and the ownership of the company.

7.1 Management of the Company

The most important implication of this professional way to look at a company is that you may let someone else be CEO. In fact, the majority of the successful startups are at some stage run by a CEO who the founders brought in to run the company.

Proposition: You need to let go control. The point can come where you have to let somebody else be CEO.

As an entrepreneur you really have to be able to let go control. To do so, you need to be very honest with yourself about your own capabilities. You may be a good technical officer, but you may not be the best manager. And when the business gets bigger and there is a lot more management to do, you have to be able to recognize the need to bring in experienced management. If not, you will constrain the growth of the company by trying to be the CEO, the Chief Technology Officer, the Vice President of Sales or the Vice President of Marketing, although there might be a better person for that job. Thus you decrease the end result of the value equation.

Proposition: Let somebody else take your job, if he is better than you are. Thus you increase the end result of the value equation.

Most founders do not grow as fast as their companies grow. A very rapidly growing company usually grows faster than its founder can learn. You soon get to a certain size where you cannot manage the company anymore. If you start a business today, you probably could manage it when it has five employees. You could probably also manage it when it has 20 employees. But when it has 200 employees you would probably run out of your skills. At some point, may it be 2000 employees, the company will just outgrow you. The faster the company grows the sooner that will happen, because people's ability to learn and absorb all the experiences and gain the necessary managerial skills is limited.

Companies in Silicon Valley shoot for very rapid growth, usually doubling in size every year for at least five or six years. What you are talking about is going from 20 to 40 to 80 to 160 to 320 employees in a five year period of time. Ordinarily somebody who has never run a company with 500 employees reaches his or her limitation in that kind of time frame. So what the founders do is they cash out, exit and start another one. That one they can then maybe grow to a 1000 employees and then they cash out, and exit, and start another one again.

Proposition: Many companies grow faster than their founders can learn.

Bill-Gates-type of people start a company and run it for their life. That is extraordinary. But that is not what usually happens. Ordinarily somebody starts a company, grows it to a certain point and then gives up the CEO job, becomes chairman of the board and then exits and starts another company. It is very rare for people to stay on top and to grow it themselves into a large corporation. When SAP was started, the founders were all experienced people. They had had managerial responsibility and they knew what a big company looked like. Thus they were very well equipped to strategically guide and

manage the company until today. Also, sometimes the founder is able to grow fast enough. However, even then you should always ask yourself if there is not a better person out there to run the company. You constantly have to keep looking at yourself. And there might be people out there that are not only stronger than you in areas where your weaknesses are, but also in areas where your strengths are. To be successful, you should always try to hire people who are smarter than you. And if you really do that, it will in most cases happen automatically that at some point in the development of the company somebody will replace you in your role. Would you therefore rather hire less smart people?

Proposition: Keep looking at yourself constantly and always ask if there is not a better person out there to run the company or to do what you do.

The question how long the founder should be running the company really depends on how fast the company grows and needs to grow (see Chapter 4 on Window of Opportunity), and what the knowledge base of the entrepreneur at day one is and how fast the entrepreneur can learn.

A way to manage that this does not become a growth restraining element or even a company killing failure is to bring in senior management with more experience than the entrepreneur has as early as possible and that usually means giving up substantial equity to an outsider. Venture capitalists will often advise or sometimes even force the entrepreneur to bring in an experienced management team. Bringing in experienced management does not mean, that you have to leave the company, it just means that you will take on a different role. You really have to know where your place is in the value equation. For instance, instead of being the CEO, you will become the Vice President of Business Development, or instead of being the Chief Technology Officer you will be a director of the engineering team which works on the second generation of the product. If after a few years you do not add any unique value anymore because you have hired people who have complemented you to a point where you are not necessary for the company to be successful, it might also be that you leave the company and do something else. Maybe start another company.

When we formed this company we were seven founders. Three months after we founded the company one of the founders who was Vice President of Marketing stood up and said: This company is getting way bigger than I ever thought. We are growing so fast already, I think I should step aside and we have to bring in a world-class Vice President of Marketing. Another founder had been with another startup before that failed and he said: If one guy had had the courage that you have to say something like that and to do

that, we would probably still be around today. That was a culture-defining moment. (Keith Krach, Ariba)

Proposition: Bring in experienced managers early.

One of the biggest problems is when the founder just cannot let go. The founder thinks he has to be the President, when in fact he is not the right person to be the President at some stage of the company's development. It is therefore critical for the development of the company, that the founders realize when to turn it over to somebody else and to step aside for somebody who can grow the company bigger and faster. An entrepreneur however often does not believe that he has a problem until he has a crisis. And often then it is too late. When he needed to hire that person was six months earlier. Many companies die because the founders refuse to let go. It is like stifling your child. At a certain age, you have to let your child go and be free. To make its own decisions, and live its own life. Therefore you need to bring in professional management early enough. Also, because it takes usually at least six months until you have found talented management. Bringing on a good executive early is one of those decisions in the early stage which will help you to avoid many problems on the way.

And when you bring in experienced management, you really will have to give up control. It will not be simply that they are running it, and you tell them what to do. You have to give up control because they are never going to accept a job if you are always looking over their shoulder. The new CEO is going to manage a lot of the people, you used to manage. He will make a lot of decisions you used to make. You will have to accept decisions you do not agree with. It will be hard.

You, therefore, need to prepare yourself for the moment when you let somebody else take control of the company. When you are used to have control over everything in the company, including every nickel, to move that over to the Chief Financial Officer or to move it over to a new CEO or to let the board take control of the company, feels like letting go of a child. It can be difficult and you need to prepare yourself for that. There will be some emotion in it, but it is a natural evolution of the company. Just as you picked your partners in the beginning, you need to prepare for this transition of the company. And you have to make sure that the vision and the values are sustained.

We knew, that over a period of time we would lose control. We knew that right from the beginning. That's something every entrepreneur should think about when they are starting a company. You want to assure yourself of the people in place, that you feel

good about the board members and the new CEO, and that it is the type of environment and the people that can sustain that early vision. (Jay Eisenlohr, Rendition)

Proposition: Prepare yourself for the moment of transition and choose people to follow you who can sustain the vision and culture.

7.2 Ownership of the Company

The second important implication of this professional way of looking at a company is that the founders will need to give up equity and are unlikely to end up with 51% of the company. You are going to end up with a few percentage points. But at the end if it works out, it will come back not only in terms of more dollars but also in terms of a sustainable company. There is almost no way that you are going to be successful with venture capital or other value adding investors and keep 50% of the company. Ultimately you will get diluted below that. You will get diluted every financing round. But as you take that money and have the value of the company go up by more than the amount that you got diluted, you will be better off from a net worth perspective. By taking in outside capital, you really work on making the pie bigger, not your slice bigger. In the end you will have a smaller share of a much bigger pie.

The smart entrepreneur realizes that if he gives a reasonable percentage of the company to a venture capitalist for instance, that this has tremendous benefits, because they help to build a bigger business. You should think about how big the pie is. And not how many pieces of the pie to give up, because building a company is really a team effort. The investors themselves are motivated by the desire to make the company grow and to make money. And when the venture will make money for the investors it is going to make money for the founders. Besides, as an entrepreneur you will realize quickly that cash is more important than equity because cash is what allows the company to grow. Therefore you will give equity instead of cash whenever you can. Managers, employees, the directors of the board, the advisory board members, the consultants, and the lawyers all get stock, because you will not have enough cash to attract these great people to your venture.

Control is not how many shares you have, but how important you are to the venture. Control depends on how much value you bring to the business, to the value equation. Percentages are meaningless. You can sell 90% of the venture but if you are the brilliant person that forms the core of the company you are in control. Because if the investors lose you they throw away their money. As an entrepreneur you are worth what you

deliver. Investors do not have an incentive that your ownership goes to zero. As a good entrepreneur you would start another one. Therefore they want you to be motivated. If you are good they will back you and want you to have an incentive to succeed. The best guarantee you have therefore is performance. No one is going to keep you just because you had the initial idea or founded the company.

Proposition: Control depends on how much value you bring to the business, it is not the number of shares you have.

7.3 Building a Sustainable Business

The reward of sharing management and ownership of the company is having built and being part of a large, successful and sustainable company. To get there you have to share ownership and let go control. The founder should never be a limiting factor to the growth of the company. Instead, he should be willing to sacrifice his own ego gratification for the greater good of making the company successful. Entrepreneurs have to clearly understand where they bring value to the equation. That means that if you hit a point of time where as the founder your skills do not match up with what the company needs, you are not only willing to step aside but to help in the transition process to bring in somebody who is a better manager to run the company. You must have the attitude that you have started the company, but that the company is something which has its own right to live and grow, and you must let others take it over who can grow it more. You must be an egoless entrepreneur. Only then the company will sustain itself when you are gone. Then you will have built something that lasts.

I think the important thing is realizing that my satisfaction comes from growing this business. If things change tomorrow the company may have to decide what are the best ways to grow. The decision will be made that way. I think anybody does not really own that business. It is not a family owned business. You have investors in the company who own a big chunk of the company, the employees own a chunk of the company, so in a sense I am a steward of the company. My job is to make the company grow, my job is stewardship, my job is not ownership in the sense that I own it and go around making sure that people salute when I go by. That's ownership. And ownership is about micromanaging things. It is a different thing than stewardship. And I am a steward of the company. I founded it and I started it, but we have multiple people involved in making this company successful and multiple people who own a piece of the company. My job as a steward is to make the company grow, be healthy, successful and make the people in the company feel happy and successful. (Gaurav Dhillon, Informatica)

8. The Ideal Startup

It is very difficult to create a model of an ideal startup, but nonetheless we try to give a definition because it summarizes many of the lessons we tried to communicate in this first chapter: The ideal startup is a combination of opportunity, team and timing. The ideal startup addresses a huge market place that is receptive to a change or is just being created due to a paradigm shift, has a team that is sensitive enough to the demands of the market, and hits the market at the right moment, not too early and not too late.

Any single one of those characteristics, if it is bad enough, kills the venture. No single one of them being good enough can make it. So no single big market opportunity alone will compensate for a lousy team and inadequate timing. Pretty much all these pieces have to be there in order for it to work. You need excellence in all three things.

II. LAUNCHING THE BUSINESS

9. The Location

As we looked at the industry and the kind of people that were viable to build this company, there was just not anybody there. There were a few people there, but the depth of knowledge, the depth of understanding, the depth of financial resources, the depth of partners was lacking. We did a study to determine where we should locate the company, if we wanted to be the digital sports company then you needed to be in the heart of the digital media. (Alan Ramadan, Quokka Sports)

Location is important. If you really want to compete on a worldwide basis you better find out where the heart of the industry is that you are in. And if you can, you should locate your company in this heart of the industry. If you do not locate it there, you better make sure that there are good reasons why you should not be in the heart of the industry. Today almost every company is extremely dependent on partners in the same or related industries so that it has become crucial to be where these partners are located. Since you need to work with even more companies than before, it has become all the more important to be where your partners are, where the heart of your industry is.

You really should locate the business where the heart of your industry is, where other entrepreneurs are, where good universities are from where you can recruit people, where venture capital is, where potential members of your board are, where your first customers are and maybe even where your competitors are. These are the kind of questions you should ask yourself when you think about the location of your business. You really need to be plugged into a kind of industry, finance and academic environment and community which helps you to grow your business. A decision on the location of a business should therefore not be an emotional decision, but a business decision like any other, because the right location will put you at a competitive advantage. You should ask yourself, where - if free of all personal preferences and family ties - should I locate my business? Where do all the resources and other things come together to make it the optimal location to start my business? And then you work from there. And you better have good reasons why you should not be there.

Proposition: The location of your business is an important business decision which you should make based on what the best place for your business is and not where the founders live or where you personally like to live.

Sometimes that can mean that you should move to another country. You have to ask yourself how much weight does the local industry in this sector really have. If the local industry has not enough weight and from a resource point of view you are at a disadvantage you should move to the country where the center of your industry is. If you have almost the same resources, it might make sense to move your sales and marketing office to the largest markets of your product, and leave your development office in your home country. Many European companies like *Baan* and *Intershop* have moved their sales and marketing office to Silicon Valley for instance. Even if you do not make the decision to move your company there, you should tie your company and product as closely as you can to the most important market for your product. That can mean for instance if you are a European internet startup you must tie your product and strategy to the much more developed US market. Many Israeli startups for example have done this. Besides, you have to think global really early on. The trend is towards getting startups global much earlier in their life. Therefore from the very beginning on you should begin to look for partnerships and distribution channels internationally.

Proposition: Tie your company and product to the most important market for your product wherever that maybe in the world and go global early.

In the long run the internet will change somehow the importance of location. It will become easier for every company, no matter where it is located, to be tied into a worldwide network of partners and customers, since the internet eliminates a lot of time and space issues that used to add enormously to the costs of communication. Thus the need for businesses to be in the center of an industry might decline, since the need for physical proximity will be different. You will probably be able to do it with an airplane flight every month as opposed to having to be there every day. However, you should keep in mind that the decision on the location of the business must be a business decision like any other.

10. The Advisors

From the earliest stage of the company on, as an entrepreneur you should try to assemble a board of advisors which can monitor the venture, give you advice and counsel, and most importantly provide leverage for your company through providing your venture with connections and credibility.

The board is probably the most important resource you can use to talk about some of the critical decisions affecting the company. You have to have somebody with experience who has been over the mountain and knows what it looks like so that they can guide. It is important to build a board that brings complementary skills to the company and the board itself should consist of complementary board members. They might not be able to give you answers, but their questions might make you think about things you might otherwise have overlooked. An entrepreneur should therefore communicate frequently with his board members. While trying to consult your board members as often as you can, you have to consider that the advisors are not there full-time. The advisory board cannot run your business. No matter how smart the board member are, someone spending only a certain percentage of their time thinking through a problem does not think through it as well as someone who is spending a 100% of their time and seven days a week.

An entrepreneur should be aggressive and very confident of whom to take on the board. *Get people who are so good, that you are afraid to even call them. Be afraid because you know that they are so good, that you would feel stupid. Every time you come home from seeing them, you should say: "God, am I lucky that he spent time with me." Get the best. And get them to introduce you to people that they think are better than they are. Get the most demanding advisors you can get. (Ken Morse, Massachusetts Institute of Technology)*

In the board you should try to assemble people who are well known in the industry because this will give you additional credibility when you raise money or hire people. If you have some prominent members on the board, the perception of investors is that the company is more likely to succeed because it kind of passed the screen. Every board member should bring value-added to your company in the sense that they offer advice but that they also bring connections and credibility. Choose only board members who really provide leverage to your business. Also think about what incentives you can offer these people to join your board and to be an active board member. First of all, you need to be a very visible and interesting company to attract advisors. Therefore you should try to generate some positive press coverage to increase your level of visibility. Also whenever you can, find somebody who can introduce you to these people. Secondly, you need to

offer some equity as compensation. And thirdly, make it fun for them to be on your board. Many senior people like to be involved with small but promising startups. And always remember, even when you are still small do not settle for mediocre board members, but shoot for the stars in the industry! Because people are going to evaluate your venture by who you are with.

Proposition: Assemble an advisory board which can give you advice, credibility and connections. Try to attract the most outstanding personalities in the industry who can really provide leverage to your business. Because people are going to evaluate your venture by who you are with.

11. The Support Players

Lawyers, tax consultants, and accountants, who have experience with startups and their needs, are important support players. An entrepreneur should not underestimate the importance of these support players, and always try to get only excellent players in this field, too. Always think big, and pick accounting and law firms which might be too "big" for your company at the time. Because they will provide you with credibility and professionalise your business from the very start on. If you want to compete with the big companies, you need to be on an even playing field. In whatever you do, you should therefore surround yourself with the best. Do not compromise on excellence, only because you are small and have little money. Instead you should try to attract these big and prestigious law and accounting firms and get them to postpone their fees until you get funded by pointing out to them the chance that they will get their money when you get funded and that they will continue to be your law or accounting firm when you grow and go public. Thus these firms will continue to bill you, but will not expect you to pay them until you get funded. When you get funded, they want to be paid. But if you do not get funded they have to write off their time. In return for that downside risk, you have to offer them some upside potential. Often these firms will be prepared to take the small downside risk of not being paid for the upside potential of continuing to be your accounting or law firm when you have become a large company. Sometimes you could also think about selling your lawyer or tax consultant a percent of the company at the initial stage which will be diluted down to half a percent or a quarter of a percent or less by the time you go public. But if it turns out to be a 150 million dollar company, that quarter of a percent could be worth 350.000 dollars or more.

Proposition: Always surround yourself with the best. Even as a small company do not compromise on the excellence of the partners you work with. They will professionalise your business and provide you with tremendous leverage.

11.1 Legal Counsel

The lawyer plays a very special role, because at the end of the day legal issues are business issues. It is crucially important that you involve an excellent lawyer from the very early stage on, because in the early stage of a company fundamental decisions will be made, which will have an influence on the company for years down the road. In fact, the lack of legal counsel in the beginning might seriously limit your actions in the future. You should never underestimate the legal implications of all of your actions, and never create serious problems simply out of ignorance.

The first legal challenge in your entrepreneurial career will be to leave your current employer without any problems. Once the employer sues you, no one is ever going to invest in you. The lawyer will therefore help the entrepreneur to leave their employer with as least claims and clouds as possible. He will also help you to protect the intellectual property of the company. Then they will advise you on what legal form your company should take and they will make sure to organize the venture in a way that will make it attractive for investors to fund it and attractive for employees to come on board. A good lawyer will then introduce the entrepreneur to the venture capital community and clarify the legal points in the funding process. The funding process is continuous, so that you will need the lawyer in every single round. And when you decide to do strategic alliances, the lawyer will assist you to do the contracts. Eventually, a good law firm will help you to go public or get acquired.

You should look for a law firm that does not tell their clients what they can't do or what the law says they can't do, but a firm that tells you what you can do, how you can do what you want to do and how you can be successful. Look for a legal partner on your side. (Mario Rosati, Wilson Sonsini Goodrich & Rosati)

Lawyers are not the most important people for your venture. But they are an important factor. To be successful, the whole thing has to come together. And lawyers are an important support player. Especially, since they can help you to lay the right foundations for the more important issues such as capital and people. Although they might not be able to get the capital or the people for you, they can help you in organizing the business in such a way that it is attractive for an investor to make an investment and for people to join your venture.

Proposition: Get an excellent lawyer from early on because many decisions in the early stage will have serious implications for the company down the road. Do not rely on common sense. Legal issues are at the end of the day business issues.

12. Intellectual Property

You live in a knowledge economy. And there will always be bigger competitors which will see the market once you have developed it. Therefore protect whatever you have got. No matter what you do. Patents have become ever more important in a knowledge economy than before. Patents have become tremendously more valuable and powerful worldwide. There are Japanese corporations using US patents to stop Taiwanese corporations from bringing products in the US. Patents are powerful.

Go and get everything we can, because it is a gold mine. And the first ones there are going to win. (Bill Gates' comment on patents. In 1990 Microsoft had 5 patents, they now approach 600.)

You cannot patent everything. You should look at what your core competence is and what separates you from your competition or presumed competition. What is it that you do, that, if they cannot do, they will never be able to enter your space? That is what you have to patent.

The protection of intellectual property is an important issue any entrepreneur today needs to address. Besides, it can increase substantially the value of the company and the chance to be acquired.

Proposition: Protect your intellectual property. Patent your core competencies.

13. The Funding

Once a market, an idea and an initial founding team are there, the next step is to get funded, since without a commitment of investors it is often impossible to hire staff and get started.

13.1 Milestone Financing

Regarding funding, the first question you have to ask yourself is how much money you are going to need and when you are going to need it. Based on these capital requirements you develop a funding strategy. A successful funding strategy is tied to the accomplishments of so-called milestones: You take as much money as you need early on and you raise a next round of financing every time you reach a milestone. Such a milestone can be the development of a prototype, the launch of the commercial product, or the first beta site customers for instance. When you reach such a milestone it shows that you have accomplished something that has reduced the risk of the venture. Then you take the next round of money which allows you to get to the next milestone. And so forth. Thus you try to achieve something that approximates just-in-time capital.

The concept of staging the financing to the milestones of the company brings advantages for the investors as well as for the entrepreneur: From the investor's perspective it is advantageous, because when the company runs into trouble the investors have not financed beyond what is needed. From the entrepreneur's perspective it makes sense because when the company does well the investors will put in more money at higher valuations, so that the entrepreneur has to give away less of the company. The concept of milestone financing is based on the theory that as you reach these milestones, you eliminate risk which in turn increases the value of the venture.

Therefore financing takes place in rounds. Typically you have an initial seed round which allows you to prove the technology by building a prototype. For the next round you need to have achieved the following milestone for instance: You need to have completed the product, you need to have three beta customers that say that it is a great idea and that they will buy it, you need to have two officers in the company, and you need to have established the business model that shows how the company can make money and how the investors will get paid. The first round thus typically finishes the product. The second round launches the commercialization of the product. The third round either pays for redirecting the product or it scales operations up even more. Some

companies go public after the third round, others go public after a fourth round, which is sometimes a round of mezzanine capital.

Though this concept has advantages for the entrepreneur, it also brings the problem with it that the entrepreneur always struggles for money as he never receives more money than what they expect him to need to get to the next milestone. Professional investors justify this tight financial control by citing the benefit of scarce resources which is that the company tends to be more efficient and the entrepreneur has a greater sense of urgency. It is a real balance between not giving too much money so that the entrepreneur stays disciplined and at the same time not starving the venture so that it will be able to hit the window of opportunity. Therefore, with this strategy the entrepreneur has to be prepared to always struggle for money.

Proposition: Try to pursue a milestone-financing strategy that reduces risk for investors and leaves you more of the company.

13.2 Risk Identification and Elimination

The next step is how to choose these milestones. Closely tied to the milestone financing concept is therefore a risk reduction strategy. Kleiner's first law (*Kleiner Perkins Caulfield & Byers*) states this strategy: Identify the risk and bring the risk forward. As an entrepreneur as well as an investor one should try to understand what the risks of the venture are and the first money you put in should be attacking these risks. As you get over these risk hurdles, the so-called milestones, investors will put more money into the company. It would be foolish to understand that there is a risk out there and then wait two or three years to address it. You need to be ruthlessly honest about the real risks in the business and eliminate those risks with the first round of money you raise. The first milestone should therefore be always a step towards attacking the main risk area. This risk reduction strategies is in the interest of the entrepreneur and the investors as it reduces the risk of the venture and thus increases its value.

Proposition: Identify the risk and bring it forward. Use the early money to attack the principal risk area.

In technology ventures but also in many other ventures you should distinguish four different types of risk:

Market risk: It is often the toughest to address. It is the effort trying to understand whether the customer wants the product. It is really the question if the dog will eat the dog food. Often entrepreneurs develop a product, set up manufacturing, take the product to the customer through distribution channels, and say: "Here it is". And it turns out that the customer does not want it. Thus you built all that infrastructure without the company having a product that it can sell. A risk reduction strategy for market risk could therefore look like this: Instead of building the product first, what you might want to do with your first money is something where you get an early prototype very quickly and you put that in front of a potential customer and say: "Is this kind of what you want?" If you are close, great. If not, you have to ask: "How can we improve that product to make it something you are interested in?" And from there on you develop the product with the customer based on your early prototype.

Many companies fail because they do not understand the market risk. In fact, there are two elements to market risk: Either the customer does not want the product, because the product does not meet his need, or you have a great product, but the customer is not yet ready for it. Only when you have revenue market risk disappears completely. Because revenue means that there are people who want your product and actually pay for your product. Therefore to reduce market risk substantially early on you should identify some potential customers who say that they would pay for your product. If you do not find potential customers who express a concrete interest in buying your product, you are carrying on the risk until you have developed a product and launch it into the market. That is a big risk for an investor and the company. Therefore, one of the most important things you need to do before launching your venture, is to talk to customers and find out if they really want your product and thus reduce market risk (see Chapter 3.1 on Defining the Market Need).

Proposition: Reduce market risk as early as possible as part of your initial homework.

Technical risk: It concerns the question if the company can make the technology work. Can you split the atom? Splice the gene? Crack the code?

People risk: It addresses the question whether the management team is complete and has the necessary experience and expertise and can work effectively together. It may also be the risk of hiring people in an industry that does not have that many qualified people.

Financial risk: Financial risk exists for example if you do something in an area where not that many venture capitalists or other investors are comfortable investing in. Thus you may have trouble financing it.

Therefore always ask yourself where the risk is in your particular business. Is it getting relationships with certain other corporations? Is it whether a piece of technology works? Is it whether the market is ready for this type of product? Do not go after a venture in which you take risk in every one of these dimensions of risk. So if you are in a business that has market risk, financial risk, technical risk and people risk chances are very low that it works out. If you narrow it down to one risk like market risk or technical risk, then you can really attack that. Professional investors such as venture capitalists want to keep risk if possible to a single dimension. Having a one dimensional risk you should try to remove as much of that risk as possible with the money you raise in the initial stage of funding. If it is a market risk, you should do some quick prototypes and even if they do not work, expose them to a lot of people, and find early customers. Spend less money on the technology development especially if the risk is lower, and more money on the market development.

Proposition: Try to limit the risks of your venture to one dimension and eliminate this risk as early as possible with the first money you raise.

13.3 Sources of Funding

There are two ways to start a company. One is bootstrapping which means that you start a company with your own money and finance it through cash-flow. The other is to raise outside capital which is very typical for Silicon Valley. The question which route to take depends apart from the availability of capital most importantly on the time window of opportunity (see Chapter 4 on Window of Opportunity) and the capital requirements of the sector you are in. If the window of opportunity is large and the capital requirements are low, you can succeed by bootstrapping your business. If the window of opportunity is small and the capital requirements are high, it makes sense to raise outside capital early on.

13.3.1 Bootstrapping

Bootstrapping is financing your business with money that comes from yourself, your family and friends and once the company is generating revenue from cash-flow. Frequently bootstrap-type of businesses start off on a consulting base, because in

consulting you get paid for what you do and can thus bootstrap the company and the development of a product. The problem with that is that it takes a very long time. Examples of successful bootstrapped businesses are *SAP* and *Baan*, which took about 20 years to really succeed.

Bootstrapped companies are sometimes unbalanced in their development. Early on the entrepreneur does not have much money so that he has to prioritize what he works on. Generally, he works for example on the product but without necessarily getting market validation for it, or without worrying what the business model should look like, or how he might sell it or distribute it.

The advantage of bootstrapping your business is that you and the people involved keep more equity of the company. Therefore in most businesses, you should start by bootstrapping the business to get the company off the ground, reduce the principal risk and then start to raise outside money. Thus you have a much better negotiating position at the point when you go out to raise outside capital and you will end up owning more of the company than if you went out to raise outside capital from the very first day.

Proposition: Try to bootstrap your business to get it off the ground, reduce the principal risk and thus get a higher valuation for your venture when you go to raise outside capital.

13.3.2 Sources of Outside Equity

There are three main sources of outside equity: angel investors, venture capital firms and corporations.

13.3.2.1 Angel Investors

Angels are wealthy individuals who invest money into very early stage companies. The best angels are key people from the industry or other entrepreneurs, because they understand what you and the company are going through and can give valuable advice as well as help with their contacts to open doors to potential customers and partners.

Angels often need much less time than venture capitalists to make up their mind and fund the venture more quickly. They move much faster than venture capital firms, because they do not do the same deep due diligence. Besides, they rather tend to be looking at the venture as "I am your friend, how is it going" as opposed to somebody who comes in monthly and asks how much revenue and how much profit you made. Besides being

more patient, angels tend to offer better valuations for the venture that means they are happy with less equity in the company. However, angels usually do not have enough money to fund the company all the way to its IPO and are often rather passive investors.

All in all, angels are often the first and only source of funding once the founder cannot bootstrap the company anymore. They can bring in practical experience and connections and usually have an easier attitude towards the financial part of the company as well as offer a better valuation than venture capitalists. Besides of funding the company at an early stage, if angels spend the time, and have a technical expertise, they can make an important contribution. Compared with an investment from a venture capital firm an investment from an angel is however often a much more passive investment with a lower leverage for the company's development in terms of contacts, professional advice and recruiting.

Crossworlds, a very successful startup in Silicon Valley, has taken the angel investment strategy even one step further to the point that it has assembled exclusively a large number of wealthy individuals of its industry as investors. They specifically went to the companies they wanted to partner with and offered a stake to the CEO and the Vice President of Sales. They even got individual venture capitalists as private investors. This way *Crossworlds* got a lot of people involved with different skill sets, an insight in the business and a stake in the company, which created a wide network with a tremendous leverage without having to go the venture capital route.

Proposition: Get people with industry or entrepreneurial background as angel investors who can help you with the initial funding and advice as well as provide tremendous leverage.

13.3.2.2 Venture Capital

Venture capitalists bring a lot of professionalism to the company, because they want to see numbers, profit and loss accounts, and because they have a very focused objective which is to get liquidity; whereas if you run a company with angels and founders, there is an urgency to get liquid, but that is not the sole focus. Venture capitalists bring this focus to go public or get acquired. So they bring a strong financial focus to dealings, which startups typically do not have. Also, venture capitalists will help the company to recruit, to form strategic alliances, to open doors to important customers, to get great industry people to join the board, to get bankers and lawyers involved, and to get other investors to invest. Besides, they are a great sounding board for all strategic issues and provide a validation of the business idea to the people in the venture as well as to the outside world. In Silicon Valley you see a lot of people in the angel community who do all of

these things too, the big difference becomes then capital. Venture capital firms usually have much more capital to invest than angels.

Venture capital firms usually take a long time to make up their mind. Three to four months can pass between the first presentation, the bringing in of technical experts, the due diligence process and the moment when you receive venture capital backing. Venture capitalists are often on a different time frame than entrepreneurs who want the capital now and are impatient to grow. Not all businesses lend themselves to venture capital. Venture capital firms focus on certain industries, growth companies and certain time frames for the return of their money. If your business does not fit their model it is very difficult to get money from them. Besides, venture capital is very expensive. Venture capital firms provide a lower valuation for a given amount of capital than alternative sources. You can get the same half a million dollars from an angel investor usually at a much lower price in equity than you pay venture capitalists for the same half a million dollars. The same is true for corporate investors. The financial terms you get from a corporate investor are usually much better than the terms you would get from venture capitalists. But what you do not get is active involvement, consultation, and contact making. Basically you are much more on your own. The venture capitalist tries to maximize the rate at which the company is growing. A good venture capitalist will do anything to grow the venture as fast as possible. He will put in more money, he will get other venture capitalists to put in money, he will identify strategic allies, customers, suppliers, technology, key people, whatever it will take to make that company maximize its growth potential. As long as the entrepreneur can keep up with that and is comfortable with where that leads the company, his interests are aligned with the venture capitalist.

In the success scenarios the interests of a venture capitalist and an entrepreneur align, assuming the entrepreneur is in there to maximize the value of the enterprise for the shareholders. If the entrepreneur's goal is to start the company so that he can run the company and be CEO then the interests of the entrepreneur and the venture capitalist may not be aligned when this is inconsistent with maximizing company value. However, conflicts of interest can occur sometimes because different from private investors who invest with a long-time horizon venture capitalists are judged by their investors on their return on investment (ROI). And ROI is not only how many multiples you get on your investment but how fast. If venture capitalists believe there is a way that can actually make a 100 million dollars today, they will do it today, versus wait for a year with risk to make 200 million dollars. The way you measure success as a venture capitalists and as an entrepreneur is therefore not always the same. Since the venture capitalists measures success as return on investment, they are interested in the multiplier and the time it takes to get there. For the employees and the entrepreneur time is less a concern for them, since this is their job, their company. What they care about is the multiplier, but not the time. Thus along with the great success stories there are lots of bitter stories, in which entrepreneurs were forced to make certain decisions which were not always in the long-

term interest of the company. Besides, venture capitalists make sure that they get certain rights such as that they can demand you to do an IPO from a certain date on, rights to get financial information, rights of first offer, liquidation rights, and rights to make appointments to the board of directors. After some rounds the venture capitalists as a group often own the majority of the shares so that they can force board decisions. The key to choosing a good investor is therefore to clearly understand their objectives and motivations.

However, venture capitalists can be very viable partners and important contributors to the growth of the company internally with advice and externally with relationships to customers and partners and in recruiting. Thus venture capitalists can provide the venture with tremendous leverage. The expertise, network and validation a top tier venture firm brings can make venture capital a very attractive source of capital: *Even if I had the money to fund the company myself, I would probably raise Venture-money again (Scott Kriens, Juniper)*

Proposition: Get venture capital if it can provide you with a tremendous leverage for things you could otherwise not do.

When you choose a venture capitalist, you have to look at him from two perspectives: the firm and the partner who will be involved with your company. First, you do a general quality check on the firm. You should look at the reputation and ask how long they have been in business, whether they have enough capital and whether they have a good enough reputation so that they are able to attract others to your venture for follow-on financing. Before choosing a venture capital firm you therefore need to talk to their portfolio companies to find out what they have done for them. Also you need to look at what they do if things do not go well, whether they will let you down or whether they will stick with you even in difficult times. Excellent venture capital firms will never let go a company. They will take it all the way to the grave if that is what it takes, but they will stay with the company to the very end.

More important than the firm however is the partner that is involved with the company. Because at the end of the day you will work with this partner. This is the person that you have to live with the next few years through very stressful times. The questions you should ask yourself are: Are his skills relevant, additive to the venture? Is this person going to help me do something, that I otherwise could not do? Can he accelerate my growth or is he a drag on my ability to act quickly? You really want people who have relevant experience either in the same industry or at stages of company development and that have invested in startups that look like yours. The last thing is you have to like him, because you are going to spend quite a lot of time with him, and you have to get along

with him. You have to be able to have honest discussions and exchanges of views even if they differ. Sometimes, depending on your experience your partner can become your coach and mentor.

Proposition: When you choose a venture capital firm, analyze the firm as well as the skills and personality of the particular partner you will be dealing with.

Since the evaluation process of venture capitalists is a very thorough process we want to give you an impression of the questions you should expect and should be able to answer in a presentation of your venture to professional investors. Venture capitalists often structure their questions along the risk factors:

1. Market risk factors: What is the market you are selling too? How big is your market? Who are your potential customers and what is their burning need? The favored question of Don Valentine, who is one of the most respected venture capitalists in Silicon Valley, is "Who cares?", in the sense of, how many people, companies, or users care about your solution? What confidence do you have that they will buy your product? What is the value proposition? Are you trying to make something work faster or are you trying to make something cheaper? What is it that is different about your solution and how big is the gap? Why are the customers supposed to buy the product from you now as opposed to later?

2. Technical risk factors: Does the technology work? Why do you think your technology is better than existing technology? Can you turn the technology into a product that you can sell?

3. People risk factors: What does the management look like? Are they doing all this for the first time? What makes you the right people to execute this business? Who do you have who has done this before? Given that you do not have all the skills you need on your team, how will you identify the remaining people? Is there a board of directors who can really add value, as opposed to some people being there because their money was available on cheaper terms than others?

4. Financial risk : What is the capitalization of your venture? What are future capital requirements? What is the exit strategy? When do you expect to go public?

5. Intellectual property: How proprietary and defensible is the solution? What are the barriers to entry? How do you intend to protect the intellectual property?

6. Return on investment: Can I make a reasonable return by investing in this company?

To determine finally the value of the company venture capitalists use benchmarks of today prices for similar venture deals or try to calculate what public markets or a strategic acquirer will pay for a similar company at some point in the future. Thus they forecast how much revenue and how much operating margin the company will have in five years for example and based on comparables they calculate how much the company will then be worth in the public market. Then they take into account how much more capital the company will need on the way. Eventually they apply a very high discount rate on the value in the order of 40-50%. That means that the company has to triple in value over two to three years, or be worth 5 times as much in 4-5 years or be 10 times as much in 6 years. Those are the returns venture capitalists look for with the idea in mind that out of every 10 startups they invest in, one or two will return ten or twenty times the investment, maybe another two or three will return two to three times the investment and all the rest will fail. The valuation also depends on the trackrecord of the founders and its management team. The first company is the hardest. Having no name, no track-record, not having proven anything to anyone yet, the funding will be very difficult. Raising money based on previous entrepreneurial success is much easier.

13.3.2.3 Corporate Investors

Besides receiving funding from angels and venture capitalists, you can also raise money from corporations. Normally as the company grows bigger, more corporations will be willing to invest. Corporations usually invest at later stages, because often they do not have the professional people to do the due diligence on an early-stage venture. So initially there are just angels and venture capitalists.

Taking money from a corporation is not only a financial but also a strategic decision. Corporate money is good for gaining access to distribution channels, and to establish strategic partnerships to block your competition. Besides, investments from well-known corporations can provide the venture with credibility which might be critical in certain markets. The fact that there is a large corporation standing behind you, could allow you to get better access to customers and potential partners. Sometimes corporate investments might also come as a commitment from customers or distributors rather than as an investment. For the venture, an investment from a corporation can sometimes also be an exit strategy. Some companies get founded with the sole purpose to get acquired.

However, one should be careful when bringing in corporate money in early rounds. Because once you take corporate money, in many cases you align yourself with one company. If you take money from *Oracle* for example, *Microsoft*, *IBM* and *Informix* would have no interest in seeing your company succeed. Therefore you always have to ask yourself what impact this corporate money will have on other potential investors or other companies doing business with you. Therefore, one should be wary of the long-term implications of a corporate investment, and not submit to the temptation of a financially very attractive offer without considering the consequences down the road. Often corporations offer better valuations than venture capitalists. Another important downside of an investment by a corporation can be that if the corporate investor takes a substantial stake in your company, you may in fact have been acquired without getting a 100% in consideration. In other words, if a corporate investor takes a 30% or 40% stake, he may have acquired you effectively and not paid for the other 60%. Therefore, you should keep the investment under something like 20% unless the corporate investor wants to acquire the whole company.

Corporate investors can sometimes play a good role as a customer and a sounding board for product development. However they can also be very distracting and can divert resources inappropriately, since in an early stage they might influence the focus of your company in a certain way which is not always in the long-term interest of your company. One way to prevent that could be to bring in several competing corporations and play them against each other. However, this could also result in a very complicated governance of the company since all investors would be wearing the hat of what is best for their company and not what is best for the young company. You therefore always have to make sure that your long-term interests and the interests of the corporate investor are aligned. An investment from a corporate investor might give access to distribution channels or customers and provide necessary credibility, but it can also put the company on a certain track and direction and limit its possibilities to partner with other companies. A decision to take in money is therefore always also a very strategic decision.

Proposition: Taking in a corporate investor is a strategic decision. They can provide important customer and distribution access as well as a higher valuation, but you should always check whether your long-term interests and their interests are aligned.

13.3.2.4 Initial Public Offering

For a company going public is actually the beginning of something, it is not the end of something. It is a new stage in the journey. An initial public offering (IPO) should therefore be an element of the long-term strategy of a company. In fact, the IPO should not be done to cash out, but to raise more money to grow the company. An IPO can finally bring enough money into the company and reduce the influence of the venture

capitalists, but it is also a stage from where on you will have responsibility to the market. If you decide to go public, the first thing you therefore have to be confident about is that the company is functioning in a predictable fashion. Now is the time that you have to make sure that the processes are really working in a repeatable pattern, so that the behavior of the company is predictable. In the early stages you do not have to be quite as predictable. In the early stage sometimes the spending is not what it should be and you are spending a little more than you should, or the revenue does not quite come in when you think it is going to come in. When you go public you have to be able to forecast the future company performance with a much higher level of accuracy. That is the difference. It tightens up the precision with which the company has to operate, because public markets can be very punishing. The tolerances are tighter, and you really have to be more precise in your operations. This is a painful experience for many young startups when they have gone public. For instance, you miss results only for a single quarter, and the stock goes down by 50%. When you are public, everybody knows your problems. You cannot hide anything. As a private company you do not have to tell anybody, how well or how bad you are doing. As a public company everybody knows. And especially if your stock goes down, there is a lot of pressure coming from many directions.

The IPO is really a managerial and organizational watershed event, because it changes the game dramatically. You will have to be audited and produce regular reports. That also means that your internal management controls have to be tighter. Everything will get more formal, because you are subject to formal regulations, and there are things that you cannot say publicly anymore. Insider policies can really make communication much more difficult. Managers often do not realize these serious consequences until they have gone public. Because an IPO changes the role of a CEO fundamentally, some CEOs will take the company through the IPO and exit soon afterwards. As you move down the path of becoming a public company, less and less of your time is inwardly focused, more and more of time becomes outwardly focused. Before the IPO you might have spent 10 % of your time dealing with investors. As a CEO of a public company you will spend at least 60% of your time interacting with investors.

Another effect of going public is with the employees. After the IPO the biggest change you will see in the people of the company is the obsession that everybody has, which is watching the stock. When you were a private company, the people could just sense if something did not go so well. With a stock traded publicly they have that new parameter to look at. They will wake up every morning and judge the performance of their company by what the public market thinks of it. When the stock starts to slide, it can thus be very damaging to the moral and difficult to retain the enthusiasm and the energy of the employees.

The IPO can lay the foundations for more growth and the creation of a sustainable company by raising money and visibility. However, you need to prepare the management team and the people in the company well for an IPO. You should really get somebody who has experience with running a public company, because this is very different from running a private company.

Proposition: Be aware that the IPO is an event that has to be prepared well and that brings lots of changes for the company and its people. It is however only one new stage in the journey.

13.3.2.5 Funding Strategy

There is no formula for choosing the right source of financing. Each time it will be a different formula, when to choose which investor. Besides, the different sources of financing are not a category from which to choose, but it really depends on the people involved: Who is the angel, who is the venture capitalist? Do they take the time, do they have the technical expertise, do they have capital, do they have connections? And since each source of funding has its inherent advantages at different stages of the company, you should see the sources of capital rather as complementary than alternative sources of capital.

The funding pattern however that seems to make sense for many high-growth ventures is that you first put in your own money. Then you go to family and friends. Then you go to their friends. And when you run out of all their friends, you go to angle investors. When you need more money than angle investors can afford, you go to venture capitalists. Then you might go to strategic partners. And eventually you go to the public markets or get acquired.

Proposition: First bootstrap the business with your own, family and friends' money. Then take angle money. After that get venture capital and maybe corporate money. Finally go to the public markets.

13.4 Choosing an Investor

Just as you do with customers and partners, you really need to do a due diligence on your investors. For example it helps to ask the potential investors for references and to talk to other companies where they have been investors. The best investors are really those who take the time to learn your business. The worst investors are those who never take the time to learn your business but always assume that they know everything there is about

your business. These investors become a distraction rather than a support. Therefore you need an investor who is really interested in you and your business and who is willing to help you; but helps you not in the way that he comes in and runs your business, but in the way that he is intellectually challenging to you as you are making key decisions. Challenging those decisions in a positive way is extremely important. You have chosen the wrong investors, if you come to a board meeting and say: "I think we should do this, we should go left." And they go: "What does left mean?" Good investors have to understand what left and right is in your business, otherwise you will spend a lot of time educating them and they cannot add any value. They must be willing to invest the time to understand your business. When things are going well, they must be a good sounding board, when things are tough, they must understand how to help you work it out. And when you run out of money and you are trying to justify why you need more, they should understand why you need it and help you raise it. That is what separates a good investor from a bad investor. A bad investor thinks he understands everything. He calls you every month to give you orders, and when things do not go well, he is going to wash his hands because he does not know enough to really jump in. And when things are going well he will try to figure out a way to get out as quickly as possible, because he does not know what, relatively speaking, "well" is. A bad investor is going to take the first opportunity to cash out versus somebody who understands your business, and therefore sees more room to grow your business and is going to stick with it. Thus it helps you both on the upside and on the downside to have investors who really know you as an entrepreneur, and know your business and therefore back you also when things change, because things will change.

Proposition: Handpick your investors as you do your management team, because they are important partners on the way. Choose investors who really understand your business.

In your due diligence, first and foremost you have to find out the motivations and objectives of your investors. In particular you have to make sure that your and the investors' goals are aligned in both the success and the worst case scenario.

Proposition: Always have your and your investors' interests aligned. Understand their motivations.

You should always go for money that brings more value than just money. There is a lot of dumb money out there. You should only take money that comes with some kind of value-added whether it is expertise, connections or access to distribution. Really look for the most value-adding money. In fact in everything you do whether it is raising money, establishing partnerships, or recruiting the board, management or employees you should

look for people who can add value in more than one aspect. People who can provide leverage to your venture in many different ways. Just as money should not only bring funding to the venture, but also connections, companies you partner with should provide not only access to distribution, but also additional credibility and relationships, and management should not only be excellent in running the company, but also be able to bring on more excellent people and a network of contacts. Always follow a value-adding strategy in whatever you do.

Proposition: Pick smart money that provides value-added and gives leverage. Follow a value-adding strategy in whatever you do.

Also, you should never forget that you are known by who you are with. People will judge you by who you are with. If you have a corporate investor and you are seen side-by-side with major companies then you will be perceived as a major company by association. Therefore if you can attract a top-tier venture capitalist firm, it will lend a lot of credibility to your venture. Having a top tier venture capital firm as your main venture-funder influences people, because people will perceive you in a certain way because a top firm is funding you. Who is backing the company is also a very important criterion for people to join a startup. The quality of the venture capitalist on the board is a reason why a CEO might decide to join a startup. Because when a company does finally get funded, somebody has spent time analyzing the business and the venture has passed the screen. That means, that you are a viable company now. Besides, it is much easier to get press coverage if you can say that one of your investors is *Kleiner Perkins*, *Hummer Winblad* or *NEA*. Phone calls will get returned easier and you will easier get into the doors of the press, the analysts and the industry influencers.

Proposition: Get great names as investors, because you are known by who you are with.

13.5 General Advice on the Funding Process

Money is the main engine to drive your business and it dictates how you plan for your business and how much you can grow. If you run out of money, you can fold your business. Your business stops. Everything else you can mask. But if you run out of money, you are dead. The only way to get money then, may be to lower the valuation. Because a lack of money can break your neck, you must always have the financing in mind. Running out of money can make it impossible to realize a great idea. There are a lot of good ideas which did not go anywhere because of the lack of money. Therefore

really watch your cash and check how much money is left and how much you are spending i.e. what your burn rate is. In fact, funding must be a top priority all the time because only money allows you to go on. The most important thing you therefore have to learn is how to do fund raising. Even when you need to focus on the product, the first customers, or new partners, do never forget that you will lose everything, when you run out of money. Fund raising is so important that you need to have someone who looks after the financing all the time. Be paranoid about money and fundraising.

Once you finished one financing round, you already need to prepare the next round by looking out for potential investors. As much as you look out for customers, as an entrepreneur you must all the time look out for potential investors. And the only way to raise money is when you do not need the money. Because by the time it rains to look for an umbrella is too late. With nothing or only very little money left it will be very difficult to get money and you will be under a lot of pressure. Therefore, once you raised money, start raising again. The ideal model is to get enough money to accomplish the next milestone and while you try to get to that milestone you should already start raising capital so that you have enough money ready when you reach that milestone, to get to the next milestone. Thus the funding process really becomes continuous.

It always takes people longer to put their money in, than their enthusiasm might indicate the first time you see them. Raising money is in fact a very time intensive process. It usually takes three to six months before the money is in the bank. Therefore never underestimate the time, it takes to raise money. Start as early as you can to court investors and try to get concrete commitments from them. Because for you the problem might be urgent, but this does not mean that you are on the investors' timetable. You should really avoid being under pressure during the negotiations. There are companies where the CEO becomes totally distracted from running the business, because he has failed to raise money early enough so that later he is under a lot of pressure to raise money. It is always easy to raise money when things are going very well, when you are hot. But to start to raise money by the time you have run out of money is too late. One advice is therefore to raise enough money to cover your expenses for at least 18 months out. Typically the money raising cycle is about six months. In other words if you finish your fund raising today and you have enough money for 18 months, about 12 months from now you have to start again, maybe even sooner. Raising more than 18 months is probably too much. Having more money is not necessarily better, but what you should try to have is enough money at the right time.

Proposition: Be paranoid about money. Make funding a top priority all along. Once you have raised one round of financing, start preparing the next round. And always raise money when you do not need it. To get money takes always longer than you expect.

Investors do not care when they put the money in. This week, next week, next month. An investor's incentive even is to wait until you get to your milestone. Since you may not be able to get to this milestone without extra money, you are in a bad negotiating position. Time is therefore always running against you. The only leverage you have on investors is when you can say that other people will invest when they do not. Therefore you should try to create the impression that your venture is a hot deal. Thus, for raising funds you have to be the prettiest girl in town. Everybody wants it. So, you have to get everybody to believe that this venture is the hottest deal around. That is the way that you will get the best valuation and the best partners. If the deal is cold, it is cold for everyone. If the deal is hot, it is hot for everyone. Therefore from the very start you should generate as much of a market for your little company as possible. Create the story and the position that this is a hot deal. Generate as much excitement and have as many options as possible because that will attract the best financing partners for you and give you the best valuation for your company

Proposition: Make your deal be perceived as the prettiest girl in town so that you get enough money at the right time at the right valuation. Create a market for your company and always negotiate with several alternative investors simultaneously.

Besides, you should always get a few success stories, especially real customer interest, before you start to raise capital. You really need an indication that people will buy your product. Therefore, find customers early who commit to paying money. When someone is paying you money for your product or service, that is the turning point for any company that is going from an idea to a real business. That is also where a lot of ideas are tested (see Chapter 3.2 on Defining the Customer). And this real customer interest is critical for financing. Venture capitalists know that this is the test, therefore you should try to do the test before you start to raise money. Get a real customer or at least somebody investors can call and who says he would buy the product. It is a lot easier to raise money when you can walk in and say "I have a contract with these advertisers", or "I have a contract with these retailers or manufacturers". Having real customer interest will make it not only much easier to get money in the first place, but also to get a higher valuation for the company, because market risk is often seen as the most important risk. Once you have determined that someone will pay you money for what you are offering, there will be people lining up to help finance the company.

Proposition: When you go to investors show them that there are real people out there who want to buy your product.

Before you go to investors to present, you should set up all the ingredients. Really do the research on the market, prepare a business plan, have if possible a prototype, and have

the vision clear. Be a prepared team. Excellent homework increases your chances to get money and also to get it at a higher valuation. Besides, the professional investor community, especially the venture capital scene, is a very tightly related community and they talk to each other a lot. People will know that you have been rejected, so that you need to prepare well even for the first time.

Proposition: Do your homework before you see investors.

People are really bad at explaining what they do, both to investors and customers. To be a successful entrepreneur you have to be able to explain well to an investor why they should invest into your company. The ability to explain to a financial investor what you do absolutely requires that you have thought through the business as opposed to just the technology. You have to tell him who is going to buy it, how much they are going to spend for it, why are they going to buy it, how is it different from any other product that is out there and how will it remain different. Do not pitch your product to them as if they were customers emphasizing all the technical elements, but really understand your audience. Be really good at explaining your business and tell them what you want them to do. In the presentation to investors, you have to be able to distill it down to the key factors. If there are too many unknowns, investors will simply do nothing. That is the default for an investor. But for the entrepreneur that is the end.

You will have to be out there evangelizing all the time and you should have a good story to tell: *If you are riding in an elevator with somebody just for 30 seconds, you have to be able to tell him about the company and why it's cool in those 30 seconds. That's what is called the elevator pitch. You have to have your elevator pitch down so that you can be at a cocktail party or something like that and you can just between two sips of a beer tell somebody of your company and get him excited. (Doug Brackbill, Visto)*

Proposition: Explaining your business well is absolutely critical.

For everything your venture does not have, you will pay for in terms of valuation in the negotiations with investors. No matter if it is the complete management team, the real customer interest or something else that is missing, you will pay for it through a lower valuation. *They want a team. As I didn't have it, I paid through valuation. (Sharam Sasson, Extensity)*. And a lower valuation means that you will have to give up more equity. Therefore you should learn to think all the time in terms of valuation and try to accomplish everything to get the highest possible valuation. To create a successful venture, you have to understand that whatever action you take, you will influence the valuation of the venture. You should try to accomplish the next milestone, not for the

milestone itself, but for the higher valuation that comes with the accomplishment of the milestone. Also, you should not simply shoot for growth, but the reasoning behind that should be that you shoot for high growth rates in order to increase the valuation of your venture. No matter how small your venture is, its shares will have a value analogue to the stock price of a public company, and all your actions need to have the objective to increase the value of the company and its shares from financing round to financing round until the IPO. Thinking in terms of company value is just as important for the management of a small private company as it is for the management of a large public company. In the public company the parameter is the publicly traded stock price, in the private company it is the price investors are paying per share in each financing round.

Proposition: Always see all your actions with respect to their impact on valuation. Manage the company for value.

Many ventures do not take enough money. There is no company that failed for taking too much money. However there are many companies that failed because they ran out of money. Therefore take enough money early on. Because it is better to own 10% of something that is worth half a billion dollars than a 100% of something that is worth nothing. Almost all entrepreneurs we interviewed said, that in hindsight they wish they had taken more money. Therefore make sure that you have adequate financing to start with. Then you will also not constantly need to worry about how to survive.

Proposition: Do take enough money in the early stages.

Investors like to do ventures which have been referred to them by people they trust. Especially in the early stages, when people invest money into an idea, it is key to get an introduction to them through somebody they trust. Introductions and references can help you a lot, especially if one investor introduces you to another, because then the other investor will be even more likely to invest. Investors have a herd instinct. They like to invest in ventures where their friends have invested.

Proposition: Always try to get introduced to an investor, since it increases your chances of success in raising capital tremendously. Investors follow a herd instinct. They like to invest where their friends have invested.

A learning-by-doing-approach should be applied during the funding process. There will be many situations when people will tell you that they will not fund you. Suddenly you see all your efforts ready to go up in smoke. In these situations you should try to

understand why investors would not want to fund you and try to address these issues before you go to the next investor. Ask yourself what it is that they think is critical and how you can adjust your business plan. Learn from your mistakes.

Proposition: Understand why investors would not fund you. Improve your concept and your skills at explaining your business.

Even as a small firm you should be confident. Do not sell under value. Every time an investor writes a check you should feel you succeeded. It is a false sense of security, but nevertheless it reinforces the confidence in what you are doing, because it gives you an independent validation. Meeting smart investors who are willing to put money into your venture gives you an independent business confirmation.

Proposition: Be confident in your negotiations with investors.

14. The Culture

14.1 Importance of Culture

Once the opportunity has been recognized, the team been put together, the right timing been assured and the venture been launched, our interviews have shown that the single most important success factor for building a successful company is culture. Many young entrepreneurs might ask why. The answer is simple: If you set the right culture, the right people will get hired and people will behave right, so that they will make the right decisions and eventually produce the right results. The corporate culture is by far the most important foundation for a successful company. It is the foundation for the recruitment, for the communication, for the decision making, and for the leadership.

Culture runs the company. Management's job is to create the culture (John Hamm, Whistle Communications). That is a different statement than saying management runs the company. Culture runs the company, because people behave consistent with who they are and what is valued. Who they are is what you hire. Who gets hired and what is valued is determined by the culture.

One really has to take the fuzziness out of this topic called "culture". Culture is a business issue, because it is an issue of company performance. Lousy cultures do not produce substantial business performance over time. It might be scary to investors to say: I met this CEO and all he is concerned with is culture. If that is were you stop the explanation it could be scary. What you have to fill in is that the reason he is worried about the culture is because the culture has everything to do with the people, and the people have everything to do with how the company performs. The culture is not the end, it is the beginning. The culture drives behavior. Behavior drives results.

Proposition: Culture is the single most important success factor for building a successful company. Culture determines who gets hired, how people behave and ultimately what decisions are made. Culture runs the company. Management's job is to create the culture.

14.2 Values

The first thing you have to start with when building the foundation for the company's culture is the value system. The value system determines first which people get hired and secondly how these people will behave. For both the culture and its values are of tremendous importance. Because it influences which people are hired and how people behave, the value system is the single most important factor for running a company and producing great results. People who think in the old way, think about rules and regulations to run the company. However, today's companies have to move so fast in response to markets and opportunities and have so many talented people who want to contribute and self-manage, that you cannot run such a company with rules and policies. When things change all the time, rules and policies do not work. Rules are not nearly as powerful as managing by values and culture. Instead of rules and regulations, you need guiding principles and values. The underlying belief for that is that people can make the right decisions when they have the right values. People behave consistent to what they consider to be valued in the culture. They ask themselves: What is valued here? What does this place stand for? What would be perceived as appropriate to do in this moment? Thus the culture manages the company.

The value system is for the people in the company as important as the values of the parents are for a child. *It is like the growth of a child. The only thing is to instill and cultivate good values in it, because when it grows, it will make its own decisions. When this moment of decision comes, they will make the right decision. (Vinod Dham, Silicon Spice)*

When the leaders in the company live the right values and instill these values in the people, the people will behave appropriately and make the right decisions. Thus value will help avoid a lot of the problems that a company usually experiences.

Proposition: You need guiding principles and values to run a company so that people know what is valued and can make the right decisions.

In the following we will present an exemplary value system which is based on the many value systems we encountered in our interviews:

Values of the company:

1. **Respect:** Respect is not based on seniority but based on what you are contributing to the company. The company is like the United Nations. We have people from everywhere with very diverse backgrounds. In the company we have a world-class rocket scientist, call him a nerd, and the sales guy. But all have to respect each other.
2. **Integrity.** Integrity in everything you do. Integrity as an individual but also integrity as a company. That has everything to do from how we treat employees to how we manage our books. We should be very aggressive when it comes to marketing and product development. We should go right up to the edge and maybe you even fall over. But in terms of integrity we do not even go up to the edge. People can say they do not like where you went to school, or the way you look, but the one thing they can never take away from us is our integrity.
3. **Egoless Culture:** The ego is not in what we do, but in the project. It does not matter how much you contribute personally, what matters is that the best result is accomplished.
4. **Passion for Excellence:** We promote and reward excellence. We set big goals and reach for the dream. We never know if we can make it, but if we shoot for the moon and we end up half way there, that is still pretty far away. We look for people who have a very strong internal motivation for excellence. We want to accomplish excellence in everything we do. We set very high standards. Everybody has to meet them in their own areas.
5. **Result orientation:** At the end of the day we must accomplish some results. All the discussion, and talk, and meetings, and customer visits have no meaning unless there is some result at the end of the day.
6. **Courage.** It is all about risk-taking out there whether we are going for a new market, building a prototype or tackle a customer. You sit across the table from an executive at BMW and he asks you who your other customers are. You say: "That's the good news, you will be our first one, we will treat you special." That takes courage!
7. **Great place to work:** Make it fun to work here.

14.3 People

The most important aspect the company culture influences is what kind of people get hired. People who are recruited do not have to conform to a certain exact specification in personality or style but they have to be compatible with the culture. They have to identify with the culture's values and live them. For our example culture that means that people only get hired who are respectful, egoless, excellent in what they do, result-driven and integer. When you have hired these kind of people and you put all these people together you just created a very electric, fun and achieving team.

It is amazingly simple. People are the most important thing. That is such a platitude, it's so easy to say that, but it is hard to internalize it. But I tell you: It is the most important thing. (Bill Giudice, Maker Communications)

You are only as good as the people you attract to the company. It is so important to be with the right people because even if the idea is wrong, the right people will figure out what to do. Your sustainable advantage has to be a world-class team. Venture capitalists would much rather invest in an A-team with a B-technology than a B-team with an A-technology, every time.

14.3.1 Recruiting People

You are only as good as the people you attract to the company. It is therefore very important to hire the best people. Do not settle for less. Do not believe the people when they say that a startup cannot get the best people. It can. In the U.S. many of the very best people join small startups. Even CEOs of large companies leave to become CEO in a promising startup. For instance, Jim Barksdale, previously CEO of *Federal Express* left to become CEO of *Netscape Communications*. You really need to hire the best people in the industry for your startup. Not just good, the best. Successful startups in America look at thousands of resumes, interview a couple of hundreds and hire maybe 10. This kind of quota reminds of the recruitment processes conducted by first-tier consulting firms, but a startup should actually have similar quotas to be successful.

Proposition: Think big. Hire the best people.

It is absolutely crucial that you start with really good people. The company will grow from the very first people you hire, because great people hire great people. It becomes a self-fulfilling prophecy. The first people in the company will hire themselves great

people who then hire again great people who then hire again great people and so on. The quality and the values start at the top. If the early employees set clear examples of not making compromises and not taking an easy path by not hiring someone who is only marginally qualified, it builds a culture that sets very high standards.

Proposition: Only hire A-players. A-players hire other A-players. B-players hire C-players. It will become a self-fulfilling prophecy in both directions. Therefore from your very first hire on only get A-players.

You must have very high standards with all the people you have. If you do not have enough people, go on with having not enough people. Do not take people that are bad just because you need somebody in the door. This is a dangerous trap. Make sure that you only hire good people. Even if it takes some time to find the right people, it is worth it. Though at times it may be very hard to wait, especially when the company needs to grow, you should never ever compromise on the quality of the people you hire. That means that you hire slowly and that the other people have to do more than their own tasks, like for example running three jobs at the same time. It can be very exhausting to wait. Soon, you will feel that pressure that you have to get things done, and you really need some more people, but you want to have the right people. Do not compromise. If you compromise you will quickly set off a downward spiral. Building a team is therefore an incredibly painful process. It may take you six months from employee No.3 to No.4.

Proposition: Never ever compromise on the quality of the people you hire.

Look for people who are smarter than you, people you have a lot of respect for. Hire people that are better than you. People you feel stupid in comparison. Most entrepreneurs are very scared of doing this because it makes them feel insecure to have people around who are smarter or more experienced. But to build a really successful company, you should hire people who can do your job better than you. That may sound easy, but it requires a very egoless behavior.

Proposition: Hire people who are smarter than you, people you have a lot of respect for.

People who are very successful know their weaknesses and they hire people to their weaknesses to be able to complement those. You have to be confident enough, that you do not have all the answers.

Proposition: Hire people who complement your weaknesses.

Apart from their skill set, you have to check whether the people you want to hire have the necessary cultural and team fit. Therefore you always need to check people for two things:

1. Do they have the necessary skills?
2. Does this person fit into the culture and can the people in the team work with that person?

You need people who are very good at working with other people, because people are going to depend on each other and are going to spend 12 to 14 hours a day with each other. Often, entrepreneurs underestimate the importance of personal chemistry. People need to like each other, their personalities must match. In a small office, an individual has a huge impact on the team's productivity and creativity. Therefore people you hire need to have a chemistry match with the team they will work with.

Even if there is a real talent, if you know the person is not going to be compatible with the culture and the team, you should not take him. It almost never works. *If you have a very talented person who just doesn't fit - not worth having it. Because this person can be cancerous to the whole organization. He demotivates people and endangers the momentum. It is like Michael Jordan playing for your team. You know he is the best basketball player in the world, absolutely the greatest. But he can't win the game by himself. He needs four other people playing. But if Michael Jordan decides, I am not coming to the basketball practice. I am too good for it. I just show up for the game. I don't want to play with you, I want that locker and I want to sit on this side of the bench. What does it do to the rest of the team that you need to win? It demotivates them: „If you are so great, you go and win the game yourself. We are not going to help you though.” That is the negative impact. It is hard to lose talent. But if it really comes down to hurting the overall thing, the decision is easy. (Dale Fuller, Whowhere?).*

To determine whether the person fits into the team, all the people of the specific team that has to work with the candidate need to interview the person and make a decision. If the people who work with him do not like him, you do not hire him, no matter how good he is. The cultural and team fit are as important as the ability for the job. Therefore even as a small company you should try to get enough visibility so that you have a lot of candidates coming through and enough choice and ultimately do not need to hire someone who does not fit.

You need to be very selective when you recruit and put people through a very rigorous process to hire them. Every person you hire should talk to a least six or seven people in the company before they get hired. Those people need to get together collectively during the interviewing process to talk about the candidate. In particular you need to be extremely careful to hire people who have the right motivation, the right personalities, and the right experiences. They do not have to conform to a certain model, but they have to have a sense for what the company culture is, what the spirit is, and what the team is. Thus in the company you will have a very interesting group of people, but there will be one common element to all the people in the group that helps them work together well as a team.

Proposition: Hire people who are compatible with the values of your culture. Do not hire anyone who does not fit into the team. It almost never works.

In the successful startups you almost only find people who have done the job they are doing before. Because in an entrepreneurial situation where the window of opportunity is small, it is pretty hard to do things for the first time. You need people who can contribute to the company immediately. You need people who can hit the ground running. There is no time for training in a startup, so that you need people who can make a difference the first day. You do not have time to mold them and grow them into their roles, but you must have people who can contribute 100% from the first day on. Therefore in most cases you should make it a key criterion for hiring people that they "have done it before". That means that the candidate has to know from day one what to do, which priorities to set and where he fits in.

Proposition: Hire people who have experience in what they do. You need people who have actually done it before and who contribute 100% from day one.

In fact, the people you hire must have shipped a product before. That means that they must know about the whole process to create a successful product and the problems on the way. Therefore hire people who have shipped lots of products. They know how to finish something. It turns out that there are many skills necessary to produce a good product. But the skill of knowing how to finish a product so that it can be sent out and being able to do that on schedule when the schedule changes is a particular type of mindset and skill. This skill shows that you can do something and finish it. People who have shipped products have this skill.

Proposition: Hire people who have finished products. They will know what the problems are on the way and can adapt when schedules are changing. Being able to finish something is an important skill.

You should hire people who have failed. Once they have made a failure they have all these ugly scars on the back so that they are not going to make the kind of mistakes that a novice might make. You do not want them to make these mistakes at your expense. Instead you want them to know the traps. That is why most startups like to hire people who have failed. People who have not failed do not know all these traps and have not internalized them. Failures are part of the learning process. Because when you succeed it is really easy to miss what the key issues are. People seem to learn more from their failures than from their successes. By having a failure you are more sensitive to important issues. In fact, if you never failed, you have probably not learned everything, because you learn from successes and mistakes. Thus when you want people who have learned everything, you need people who have failed. That is why failures are so important and why recruiters for startups like people who have failed and why venture capitalists like to invest in people who have failed in their first venture. They have more experience in rough times.

Therefore the first question I ask is "Have you had a failure?" I want somebody who has failed and even several times, I want somebody to show me some big deep scars. If you lose the America's Cup as the Japanese skipper, you won't be skipper again. What a stupid concept. Some skippers have won on the fourth attempt. (Alan Ramadan, Quokka Sports).

Proposition: Hire people who have failed.

Another important criterion for selecting people is that they can adapt to change. Because if there is one thing that is certain in a startup, it is that things will change. Therefore you need people who can go through a lot of change. You need people who can be boss today, and tomorrow work under a new executive, who can work with one person today, and with another person the next day, who can work in one area today, and another area the day after tomorrow, who can focus on one customer segment now, and another tomorrow. You really need people who embrace change and can cope with it. They must be able to work in an environment that is constantly evolving, that is permanently in flux. They must feel comfortable in an environment where you do not know the answer and you will not know it for six months. A startup is an environment where people change, where jobs and roles change, where the customers and partners change, and where the infrastructure changes. And that almost every day.

Proposition: Hire people who can cope with change. Change is the only constant in a startup environment.

People who work in startups have to be used to working with little infrastructure and little support staff. The CEO himself has to be able to get down and roll up the sleeves and do the real work. If people are used to have secretaries and unlimited funding for advertising campaigns, a startup is not for them. If they need a lot of resources to make it happen, they are not made for a startup. Often people from large companies are not used to working with very little infrastructure. Whereas young people often do not know or are not used to these things. They never had a secretary, they always had to do the things for themselves, so that they are more comfortable in a startup environment.

Proposition: Hire people who are comfortable with little infrastructure and support staff.

Another metaphor is the difference between the architect and the carpenter. The architect says these two beams will come together. It turns out that the wood is not perfectly straight and things aren't exactly right and things do not always work out as planned. And the carpenter's job is to make it work. That is a different skill. Being able to deal with that. (Dan Bricklin, Trellix)

At the early stage of a company the people will have to do several jobs at the same time: the receptionist must manage the phone, the payroll, the move to the other building, and the kitchen. Therefore in the early stage you need to hire these kind of multifunctional people. Later when the company grows and jobs get split up, you need to recruit more specialists.

Proposition: At an early stage hire people who can do several jobs. The more you grow hire specialists.

People say you cannot ever overhire in a startup. You can. Often when you bring in people from very large companies it is very difficult for them to work in a small startup environment. However, when you have inexperienced people that suddenly have jobs that are five times the job they had in the previous year, it is difficult too. It is an art picking and choosing the right team for every step of the business. The ideal is to have people who have worked in both large and small companies and can scale for instance from 10 to 200 employees in company size. But that is ideal. The reality is that you have to change some people of the team in every stage. You have to learn to let people go. Be

very realistic about that. Many entrepreneurs had to learn that they have to fire people much quicker than they did. In hindsight, many would now make these tough decisions much earlier. Therefore do not have illusions that you will hire people that you might have to let go later. You need the appropriate team for every stage.

Proposition: You need the appropriate people for every stage in the company development. Hire people for each stage of the company. You have to let go people who cannot grow fast enough.

Often it is recommendable to hire people that you or somebody else in the company knows personally and has worked with before. In the early stage it is very beneficial to have people that you know, so that you do not have to worry about doing the assimilation and figuring out if you can work together. That is why often entire teams of people leave a company to join a startup. Hiring people you have worked with really eliminates much of the worries concerning the team. As the business grows and matures that becomes a little bit less important but in the early stage it really helps a lot.

Proposition: Especially in the early stage hire people you or somebody in the company knows and has worked with.

When you are hiring, you need to resist personal feelings and be objective. Do not hire a friend unless he is tremendously talented in his own right. Resist the temptation of hiring people who you like but from a neutral perspective do not have the skills needed.

Proposition: Do not hire your friends or relatives unless they are tremendously talented in their own right.

When you hire people you should always ask what they enjoy. If you can find out what people enjoy and there is an opportunity for them to do it in the company, perfect! They will take pride in their work, and they will have fun. It will not always be like that, but the overall sense has got to be one of tremendous enjoyment of what they are doing. Also, look for people who are self-motivated, people that really want to do it. Those people will have their own clock. You will not have to check on them.

Proposition: Hire people who are enjoying their work and are self-motivated. They will have their own clock.

Hire people you like. Not because they are like you, but because they are people who you like to work with. A startup offers the unique chance to choose who to work with, to choose your own people, the people you are sitting with in the same boat. That is why startups work.

Last but not least you need to hire people who are integer. When they say something they will do it.

Proposition: Hire people who are integer. Hire people you like.

14.3.2 Attracting People

One of the key incentives for people to join a startup is the promise of a future payoff once the company has gone public. In a startup you should give stock options to everybody for two reasons: first, cash is scarce and second, you are in this together. If you give stock options to everyone who works in the company, everybody will believe that it is "his company". And if everyone feels the company to be his and owns some part of it, they will behave as if it were theirs. They will have this sense of ownership and pride which makes them do extraordinary things for the success of the venture. *When everybody in an organization thinks like they own the company amazing things happen. (Frank Quattrone, DMG Technology Group)*

Proposition: Hire people who do not worry about job security but about wealth generation.

Indeed, you should share stock options broadly among the employees. Successful companies give equity to the secretaries, the receptionist, the janitors, the cleaners, everybody. Not seldom, the largest investors in the company are the people. *The largest investors in the company are the people. They invest their lives here. It is not my company, it is our company. (Michael Skok, Alphablox).* Besides the stocks people get when they are hired, employees should get additional stock options based on their performance and during a liquidity crisis you might even offer people a pay in equity. The distribution of stocks should depend exclusively on contribution, not on seniority. It is therefore not unusual that people who have twice as much stock report to other people who have less stock.

If you are an employee who thinks about joining the company you should think about your return on investment in a certain way: I am going to give five or six years of my life to this company, am I getting a big enough piece of it now, so that when five or six years come and the company has been successful, I will have a piece that is worth my time? If I work really hard, doing these 70- or 80-hour-weeks for five or six years, am I going to make a million dollars, or two million dollars, or half a million dollars or whatever it is that is worth my time? And if the answer to this is "No", because you multiplied your stock options times a reasonable projected price and you see that you will end up with 100.000 dollars, then why do it.

To illustrate how the equity of a company is distributed, we will therefore give in the following some real figures based on a software company worth one hundred million dollar in an IPO: A typical approach for the first round would be 30-40% for the venture capitalists, 30-40% for the founder, and 20-30% for the employees. After each round the founder and the employees will get diluted. The sooner the company reaches the IPO the better and if the founder ends up still owning a double digit percentage of the company when it goes public he can feel very comfortable. A CEO entering the company could ask for something around 8-10% of the company. For a Vice President it means that in the early stage he has maybe 3-4% of a company and for a company that is a year or two before the IPO that he has about 1.5-2% of the company, directors have about 0.5-1%, key engineers depending on when they come on have anywhere from 0.25-1%. Beyond that it would be 0.1% and so forth until getting to the administrative level where stock options will be given out in hundreds.

That promise of a future payoff is part of the magic that makes people in America do it. It is the chance to reach for the "brass ring", the chance to reach for this big reward. They will work for just enough to make a reasonable living, and everything else will be tied to how the company does. Thus everybody is pointing at the same direction.

Proposition: Give stock options to everybody in the company. Stock options for everybody is a very strong motivator.

14.3.3 Finding People

One of the keys to hire the best people is being able to get a lot of great candidates and then hire the best. Therefore your venture must get enough visibility. Press coverage can help you to get more candidates. The best way however to find good people is through good people you already know. For instance people who already work in the company and say "I know such and such and he is a great developer". Usually these are excellent

people because the person recommending somebody is putting his reputation on the line by offering somebody else. That is often where you get the best people from.

Proposition: You get the best people through people you already hired and other people you trust.

Before people join the company they will do their homework. They will try to figure out how viable your venture is and whether they can have confidence in the management. Therefore when you first contact a potential hire, it is important that you have an attractive website with some positive press clips. Because the first thing people will do is that they will go to your website and look at the different press that you have got. When you are unknown it feels much riskier for a potential candidate. That is also why the first five people take so long to hire. Once the venture is known and has generated some press and visibility, it will be a lot easier to hire people. Then people feel that the company is far enough along and has gotten enough attention and publicity, that things are going well and that it is a good time to join.

The initial recruiting is so important to get the team starting out well. If you are getting the right employees early you are serving yourself for years down the road. A good spiral will begin. However the first five employees are also the hardest. After that it becomes easier because they in turn can hire other good people and then the recruiting can really pick up. Also once you have five great people on board people will be more willing to join your team. Besides, as you are growing you will be more known since you will get more visibility. If however you get mediocre employees or the wrong employees in positions then bad decisions and more bad hires start to happen and the spiral will drag the company down. Especially in the first hire you should therefore look for people who themselves know excellent people and thus can attract more talent to the company. Every good person hired will immediately attract other good people. If you hire a bad person it will be impossible to hire good people under them. Therefore in your first hires look for people who can attract more talent and put together the team under them.

Proposition: Especially in the first few hires look for people who themselves know excellent people. Nothing attracts an excellent candidate more than an attractive team. It is a self-fulfilling prophecy.

In a startup you should not forget that it is not you offering a job to these excellent people, but rather them choosing to work with you. If you really hire the best, all of them will have other tremendous job alternatives. Therefore you have to court the really good

people. In most cases they will not come to you, but you have to go and find them. You really need to sell your company and your vision to them.

Proposition: You have to court the really good people not vice versa. Learn to sell your company and vision to potential employees.

In Silicon Valley, a lot of startups recruit their key personnel through a recruiter. Since the time commitment as well as the level of professionalism required to find the best people in the industry is very high, contracting a recruiter can make sense even for a small startup. However, you will still have to spend a considerable amount of time and effort on selecting among the candidates the recruiter presents. The recruiter cannot hire for you.

Proposition: Consider getting a recruiter to find key personnel.

14.3.4 Keeping People

One thing is hiring, another thing is keeping good people. There are lots of opportunities out there for talented people. Therefore it is a challenge to hold the people, especially when things do not go that well. Losing people along the way can be absolutely disastrous to the company's efforts. Therefore you have to retain people. You can only do so much through financial rewards and handcuffs because people are as much drawn to what they like to do and what they think would make a difference. Great talent is always gravitating towards great ideas and only wants to work in companies that will make a big impact. That is what you have to offer them. Everybody in the company should feel that they can make a difference. Everybody should feel that the specific thing he is doing will help the customer to solve a problem and actually makes a difference to the overall outcome of the company.

Proposition: People join startups because they want to make a difference. You need to give them this feeling.

Certain types of people will join a startup. Especially people who see an opportunity and who want to see the impact of their work and do not care how many people report to them. However that also means that the minute somebody senses that the company is not going to succeed, he might leave the company. Thus there is a danger that when the company runs into trouble, people will leave the "sinking ship like rats". Therefore you

permanently need to make people believe in the vision and create loyalty in the people. You really have to sell your venture and your vision to the people all the time.

In many startups, there are no employment contracts. The employees can walk out everyday and you can fire them everyday. Thus you are worth what you deliver. The best guarantee you have is performance. If the employee does not deliver, he is out. And if you do not deliver he walks out. If despite all efforts you lose a person, you will discover that after all there is a lot of resilience in an organization, even when you think that when this person leaves, we will not make it. That is almost never the case.

14.3.5 Dismissing People

In a small company, one wrong person can kill the whole company. Everybody has to do a great job. Because if people work as hard as they can, and you have a couple of people that are slackers that are not doing the job, it is not going to work. Because then the people that are working 20 hours a day seven days a week will quickly get demotivated. If someone is only doing 80% of the job, that means that he is hurting 20% of the company, 20% of the people. A startup cannot afford that, and you have to stop it fast before it makes the whole organization deteriorate. Therefore it is important to address employee problems early on. An entrepreneur tends to look the other way, especially if the business is growing. That is very expensive for a small company. You have to be willing to make tough decisions fast. Sometimes it is the very first guy you hired, that you have to fire.

Proposition: Get rid of people who do not perform or fit. Fast.

14.4 Mission

If you have hired people that are compatible with your culture, all you really have to do is to get alignment around the mission. Because the biggest risk is that you have people working against the wrong objective. The values reinforce the work attitude. They do not ensure that the people are working against the right thing. *We call that ladder on the wrong wall. What that means is, they are climbing the ladder beautifully, but it's on the wrong wall. (John Hamm, Whistle Communications).* The next step in the process is therefore to create a mission.

Our mission is to be the leader in enterprise-software for this emerging market. There is no second place. If you walk through Ariba you will see that the company is obsessed with leadership. We want to be the leader. We talk about leadership in five areas: Vision, product, customers, partners and the team. (Keith Krach, Ariba)

If the mission is right, then the most important element in running the company from that point forward is communication and information flow because they keep the mission being worked on properly.

14.5 Information Flow

Once the culture has determined what people get hired and towards what objective to work, culture then determines how the people in the company share information and communicate to achieve the best possible results.

14.5.1 Free flow of information

In order to make sure that people effectively work together, you need what is called a free flow of information. A free flow of information means that information is open to everyone. Everyone can take the information he thinks he needs, and has access to it. To put everybody in the position where he has all the information he needs, you have to facilitate a free flow of information in the whole company. When information is flowing freely in the company it enables people to get more information and more input and ultimately to make better decisions.

Proposition: Information must float freely to enable people to have more information and more input from others and thus to make better decisions.

14.5.1.1 Open-door, walk-in Meetings

You should not have a lot of meetings in a room, where you have a door. Once you close the door you are signaling the people to stay out. Instead you should encourage people to sit together for meetings in a large open area without doors where other people can walk by and listen to what is said. Successful startups have built a large area without doors, where meetings take place so that people can freely move in and out of meetings.

Proposition: Have a large meeting area without doors and centrally located so that people can walk by and listen.

The open area should be designed in a way that always allows you to join, even if you just walk by and you hear something that is of interest to you. If the room where the meeting is held had doors, whether they are open or not, you would never think of coming in and joining a meeting. The open area really encourages people to sit down, to listen to the portion that is of interest to them, and then to leave again and to go back to their work. You need to make it clear that it is o.k. to go in and out of meetings. It is not an insult if someone leaves a meeting. That is free flowing information.

We put some sofas in the room, we set up the room so that there are several levels of beings, so you can walk by, listen, join the discussion and leave. We also made it on the way to the kitchen. It always works well if it is on the way to the kitchen or where the coffee is, so that people do get to walk by, what that means is that it is o.k. to be just walking by, so you don't feel you have to go into the meeting just because you showed up. So you can be standing on the periphery, you can be sitting close in, you can be sitting much closer in, you may say a few words of wisdom, or ask questions or just listen, and you can leave. (Lisa Underkoffler, Trellix)

Proposition: A large open area without doors with the possibility for everyone to join a meeting is a crucial step towards free flowing information.

This way of holding meetings has a huge effect on people's understanding, what is going on and where things are. It may not be their business, it may be a marketing meeting, and they are from development, but because meetings are held openly they know what is going on and can give some input. The person running the meeting might not always think, so and so needs to know about this issue. But in fact often people do. And by having people hold meetings in an open area other people may take the chance to join a meeting. Also, if you have customers and you want them to interact with the whole crew so that the developers and the marketing people can understand what is going on in the customer's mind, you should bring them in there. And then people just kind of migrate to the meeting, because they feel that it is open enough that they can go directly to the customer and say "So, what are you thinking of this?" And that is probably the most valuable information you can give to really anybody.

14.5.1.2 Sitting in Cubicles

Another tool that ensures a free flow of information and communication are cubicles. When people sit in cubicles, there is no physical barrier to communicate and information

can float freely from one person to another. At *Intel* for instance, the CEO himself sits in a cubicle.

Proposition: Arrange the working space in cubicles.

Along with these tools, there are other more formal ways to ensure a free flow of information.

14.5.1.3 Status Meetings and Reports

Another way to make sure everybody knows what is going on is to have status meetings. In status meetings, the parts of the company present to the each other, so that everybody knows what the other people are doing and how they are doing. Besides, it often makes sense to have weekly written company, department and sometimes individual status reports. All these reports should be available to anyone in the company online so that you can read anybody's status report that interests you. In addition, independent of the function one belongs to, people should be able to participate in newsgroups on "Technology", "Marketing", "Sales", or "Administration", and subscribe to such mailing lists.

Proposition: Use status meetings and status reports to disseminate information widely.

Information technology has dramatically reduced information and communication costs so that information sharing with all the people in the company has become much more efficient. Previous to these technologies there was a natural bound of contributors in a decision because only a limited number of people had the relevant information to contribute effectively and had the knowledge that a decision was pending. Also every additional person you involved in a decision added communication costs. Thus at some point when you added the n^{th} person, the value of this additional contributor was going to be less than his cost. That was the rational bound to the number of contributors. Today however communication costs are close to zero which means that you can involve anybody who is interested and give him the opportunity to contribute. You can really do almost everything over networks. This extensive use of information technology therefore creates free information access and enables people to share efficiently information via email and newsgroups. In a modern startup people get up to 150-200 emails a day. Information and communication are really flowing freely, since information technology has made broadband communication easy and created a tremendous transparency of information. Due to these tools everybody can see what is going on in any other area

which again allows everybody to contribute to everything. Thus everybody has more information and more input and can ultimately make better decisions.

Proposition: Use information technology to share information effectively because it reduces communication costs to zero. Have an extremely active email and online culture.

14.5.1.4 Personal Whiteboards

The personal whiteboard system is another very effective way to ensure that everybody has access to all information and thus has a better basis to give input and make better decisions. Everybody in the company owns a personal web-based electronic whiteboard in which he manages his schedule, his to-do-list and the tasks that he is working on during the week. You can even put up your personal goals, things on which you personally want to improve. Everybody can access this information through a company-wide intranet. Thus everybody knows what meetings take place and what other people are working on. It gives everybody the opportunity to participate within the company in any area that they are interested in. People are very busy so that they will not participate in everything, but if something really concerns them they can.

Besides, the personal whiteboard is an important self-management tool. At the beginning of the week you list all the things on your whiteboard that you want to get done. Over the week you go and check things off. At the beginning of the next week small groups of 4-6 people get together and each person goes through his list and says what he did not get done, and why as well as what lessons he learned. The whole process is focused on improvement.

14.5.1.5 All-Hands-Meetings

Successful startups often have all-hands meetings every two weeks, sometimes as often as every week. In these all-hands meetings the whole company comes together and the CEO gives an update of what the company is doing, how it is doing, and the things the company needs to focus on. Also some of the other people, sometimes the vice presidents and sometimes just individuals who are driving a certain project, will give an update. Then the meeting is opened up for any questions that somebody wants to talk about. In addition, all-hands meetings are used to reward people who did a really good job last week, or people who have been with the company for a certain time. One of the rewards we came across in this context was a personal ping pong paddle.

As an entrepreneur you need to be very open and also talk about things that scare people. Often by not talking about things, you cause more damage than by talking about things, because then people will be talking about these on the hallways. You really cannot

communicate enough, you have to overcommunicate. Because people are smart, and if they have the same information as you, they will think as you and understand your decisions or make the right decisions themselves. Therefore in these all-hands meetings you have to explain the things to them. That is all they want to know. They want to know what is going on and with a good rationalization of why. If you can satisfy their questions, they are happy. They do not really want to make your decisions or run your business, but they want to understand what is going on and why and have the opportunity to contribute so that they can feel that the company is theirs. Such an all-hands meeting is thus very important because it gives everybody the opportunity to ask questions and to get company-wide information and last but not least reinforces the cohesiveness of the team.

Proposition: People feel the need to be informed and want to contribute so that they can feel that it is theirs.

14.5.1.6 CEO Lunches and Employee Breakfasts

There are startups where every other week the CEO himself has a two-hour lunch with the new employees. There he talks to them about what the company is and what it tries to accomplish. The new hires tell him, why they came to the company, what their expectations are and what they hope to be able to do as people in the company. The purpose of these CEO lunches is that all people understand clearly the company's vision, the company's products and how they work, and are able to describe them to someone else. The idea is that everybody in the company should be well enough educated so that when you asked them what the strategy is they could give you a pretty good answer. And if you asked them what their department's goals are for the year they would be able to tell you the four or five most important things. Besides there are regular employee breakfasts where all the new employees and executives get together to talk about the company.

All these tools and meetings are designed to break down barriers to a company-wide free information flow so that information and communication can flow upwards, downwards, sideways, in all ways without limitation.

Proposition: Use status meetings, status reports, personal whiteboards, all-staff meetings, CEO lunches and employee breakfasts to break down barriers so that information can flow freely in all directions in the company.

14.6 Communication

As a company you need a culture of extreme communication. Intensive communication helps to attract bright people, because they like to be involved. The involvement of everybody again maximizes the opportunities for the company. Besides, communication is far more key in a small company than in a large company because things are changing so rapidly. People change, jobs change, customers change, products change, everything is constantly in flux. So you have to make sure that everybody sees the same goals and missions and how priorities are shifting and evolving.

Proposition: Communicate. Communicate. Communicate. You can never over-communicate in a startup.

14.6.1 Formal and Informal Communication

Moving from 4-5 people to 15 people is a huge step in terms of how the company communicates, because you are no longer in daily contact with everybody every day. Moving from there to 40-50 is another big step. Communication really becomes the critical issue. And you do not think about communication when you have under 10 people. When you have 15 people you have to. Then you need formal ways of communication as for instance the all-staff meeting, the status reports, the email, the mailing lists, the intranet. But no matter how big the company is, the informal structure is ultimately the most powerful. And the informal communication is determined by the culture of the company. The culture needs to encourage informal communication in the way that people talk in the hallways, sit in cubicles or come together for a beer on Friday evening. Talking in the hallways, in cubicles or at informal gatherings is the best mode of communication because company information exchanges freely, without bottlenecks. There people talk about the week and if somebody has a new idea or some good or bad news it permeates the company immediately. Those are very effective means of communication, since there are no barriers. A culture needs to support this informal communication.

Proposition: Encourage informal communication actively.

14.6.2 Direct and Open Communication

Part of having an intensive and effective communication in the company depends on the people you hire. The other part depends on the culture. The culture is therefore also a

statement about the quality of communication. If there is backstabbing, politics, hidden agenda and secret information, the company as a human system begins to deteriorate. And it shows up in things like that the product is late, sales did not happen, or the market research did not take place. Those are all the symptoms of a human system that is not performing. They are not the source of it. The source of it is that two people back inside the company did not talk to each other or did not talk to each other openly. People will behave and communicate precisely in line with whatever the environment rewards and what the culture supports. If your culture supports politics, you will have political behavior. To make communication effective, the culture therefore needs to encourage open and direct communication. Everybody must be able to communicate directly with everybody. The CEO must read every email personally and answer everything personally. Also, the CEO's and everybody's schedule should be accessible so that everybody can see when a certain person is available. Besides, thus everybody can see if there is a meeting and - if it is not an open-area meeting anyway - can send a request to join a meeting.

Proposition: Communication needs to be direct. Everybody should be able to communicate directly with everybody.

Also communication has to be open and honest. You need to create an environment that rewards and encourages straight communication. Honest communication saves a lot of time and energy in the company. You should talk straight and request straight talk. Be direct. Never tolerate anybody who tries to make up a story. Ask people to tell you what they are really thinking, what they are really concerned about. And make straight talk safe. You cannot just say that you want open communication and then shoot the first guy who speaks his mind. And when people talk straight, listen and acknowledge what they said. Always appreciate the honesty and sincerity in it. People perform best when they are honest, when they can speak with their open mind. The freedom of expression is thus very important. The culture must reinforce this value.

Management should also practice a very open way of communication: *We told the employees that we were two weeks away from running out of money. But we told them that we were doing everything we can to turn it around. We didn't hide it from them. When things are good you make an effort to disclose as much as possible, when things are bad you disclose everything. People will tolerate bad news if you have a plan.* (Erick Spitz, Trakus)

Proposition: Management should practice a very honest and open style of communication.

14.7 Decision Making

In a business where things are changing rapidly so that there are constantly many decisions to be made and where you have a team of talented people who want to be involved you need an adequate decision making system that empowers people to make a rapid decision yet takes all critical input into consideration. You need the best of both worlds: maximum input and maximum speed.

Therefore you should have a decision making system where there is one person who makes the decision because he owns the implementation of the decision, and there are contributors to the decision. Thus when you have to make decisions one should ask, who is the person that will implement it, because this should be the person who will make the decision. This decision system makes sense because you really need to have the people who implement the decision to own the decision. Do not let people make decisions that somebody else has to implement. Empower the person who will implement it to make the decision. Then they also have to own it in the hard part, which is making it work. Only then the decision will be well executed.

A good example is the Israeli Airforce. Whoever is the best pilot, is the one who leads the strike. He may be a lieutenant and there may be a general three airplanes back. But the guy who is the right one to do it, gets the job. Rank doesn't matter. (James McCoy, Terastor)

The rest of the people are contributors to the decision maker and implementor. Since information technology has reduced communication costs to almost zero, everybody is a potential contributor. The decision maker will work with the rest of the people, the contributors, to make sure that the best decision is made. It is in the culture that people contribute, and for the decision maker to ask others for contributions, advice and data. It is a "must" in the culture to use the brainpower of the other people in the organization. Thus you have the best of both worlds. First, there is one person who decides, so that it can be acted quickly. Second, input from all interested parties is made possible and encouraged in the culture, so that the best solution is made. Third, the person who decides is also the person who executes the decision, so that he identifies with the decision and executes it with fervor.

Proposition: Decisions should be made by the person who implements it. All other people should be contributors in the sense that they should have the opportunity and responsibility to contribute. Thus you ensure speedy decisions, input from everybody and ownership of decisions.

The way that such a decentralized decision system works is that you communicate everything to your employees including the income statement and the balance sheet and how much equity was invested. People do not need to see each others' salaries, but they should know overall what the company is spending on salaries, and know how much cash there is left. Because the more intelligent and knowledgeable you make everybody about the business and the more free information flow you have, the more each person is able to make decisions on their own in the same way as you would make them.

The key for a success of a startup is leverage. How is a startup going to beat a large company otherwise? It basically has to be able to move faster and do more things with fewer people. And how do you do that? You really have to make each person as autonomous as possible but yet moving in the same direction. You do that by communicating very clearly and effectively and letting people make decisions. And it is easier because you are small. Conversations happen in the hallways and all that, but it does not just happen automatically either. You really have to facilitate that better communication. And particularly as the company grows you have to institutionalize those things that happened naturally when the company was just a few people. You need to design opportunities and increasingly processes for input. All this free flow of information via information technology or hands-all and other meetings is designed to make people aware that there are decisions coming or that projects are going on where they can give some input. In the all-hands meeting for instance, marketing will say "we are working on a redesign of our website, please send us ideas or example sites that you like on the web, we will take that into account as we are doing this design". Also you can have "lunch talks" on a certain topic: once every other week for instance at *Visto*, a startup in Silicon Valley, there is a lunch which every time has a different topic. It does not mean that everybody in the company needs to come, but only those interested in the topic of that week's "lunch talk". For instance, one of the engineering people will step up in the all-hands meeting and say: "We are working on this new feature and we are going to do a lunch talk on it next Tuesday". Then sometimes people from marketing or business development will come along with the engineering people. Basically, everybody who is interested and would like to give some input comes to these meetings. The "lunch talks" create a forum for people where they know they can come and give their input, and if they cannot make it to lunch, they can send an email. So that if an engineer feels like the company should really try this in their marketing efforts or the company really should be partnering with this company, he can give input. And even if the decision gets made the other way, as long as people know they can vote, even as they might be outvoted, they appreciate the opportunity for input and it keeps communication open. It is very similar to a democracy. It is key to have this opportunity to give input and understand also that ultimately the person in charge of that decision, the one who knows best about it and who will execute it, has to make a decision. That is how the balance works.

At the same time you also have to empower people and say: "This is your part of the business". So they have to make sure that this part is successful, but through your culture you teach them that they should not try to achieve that all by themselves, but take advantage of all resources of the company to help them solving their problem. *It's a little bit of both, it's a little bit of you are empowered, you are responsible, so you can do what you want, but in the pursuit of doing that our culture says use all resources. We are not looking for shooting stars, and we are not looking for independent glory players, we are looking for doing the best we can for the customer. (Dave Peterschmidt, Inktomi)*

In a culture where people are not afraid to make decisions and decisions are based on what people think is the best to do, inevitably 10% of the decisions people make are wrong decisions. So what? If you wait to make sure that all the decisions are right you cannot move fast enough in a startup. Typically if you try to make 60-70% of the decisions to be right decisions you will build a successful company. If you try to make 90% of the decisions to be right decisions you will be an extremely successful company. And if you try to make 100% of the decisions to be right decisions you will not move fast enough as a startup. Empowering people to make decisions is very tough, but vital as the company grows. You have to give up power. Sometimes you will give major decisions - certainly in a technology company - into the hands of your most junior people, because they happen to be the experts in that area. Why should the CEO make all the important decisions, when there are other people much closer to the decisions and have the knowledge and information needed? They will be much closer to reality than the CEO.

Only if you force me I will make the decisions. Most of the critical decisions are not made at my desk. (Sharam Sasson, Extensity)

People have to trust that management is going to support them in whatever decision they come up with. You let them make the decisions and you live with those decisions. You have to back their decisions, otherwise you demoralize the person who made the decision and the person will never take the risk anymore. You have to allow people to take risk, and in that they make failures. But as long as the wins still outweigh the losses, you are still gaining. Besides, there are very few decisions that are mission-critical. You should try to make decisions as peripheral as possible. Most decisions get weigh too much attention. Especially if it is your first company, you think of simple things to be so important and you let them consume so much of your time and energy which in the grand scheme two years down the road are going to be unimportant e.g. picking the right building, choosing furniture, ordering the phone system, what to call the first product. Everybody has some personal ownership in that decision. But it does not matter. It is really not worth spending so much time on it. Really there are very few decisions which are mission-critical.

Proposition: There are very few mission-critical decisions. Most decisions are not worth spending so much time on them.

Because a startup has only limited resources and information and at the same time has to make decisions fast, a startup company's decisions are more like bets. You have to bet on one thing because you just do not have enough resources, manpower, brainpower and information to be covering several bets. You cannot follow two or more tracks. You have to decide on what trends to bet, on what partners to bet, on which business model to bet, on which product to bet, and on which customers and suppliers to bet. Being able to decide where you do not have complete information, where you do not know what your competitors are doing, where you do not know how customers will react, and where you do not have the answer and where you will not know it for six months, is a very important ability.

Larry Ellison, the founder of *Oracle*, said that a company should make decisions as follows: ready, fire, aim. Not, ready, aim, fire, because you do not have time to analyze the problem and get all the information before you make the decision. You get maybe 80% of the information, you make a decision, and then you try to aim and steer your eventual decision. You really have to make decisions fast. Therefore an entrepreneur has to learn how to make a bet and to live with it and if necessary to correct it midway. Thus sometimes you have to say: "There are three choices, let's just go with B". This is better than to analyze the situation for two months and then come up with B. Or C. Go with B and if you fail, if you find out after a month that it was actually C, then go for C. You should not waste too much time on analysis. Ready, fire, aim.

Jim Barksdale from *Netscape* has said: "If you see a snake, kill it. But then don't play with dead snakes." If a decision has to be made, do it and move on. Barksdale added: "Every new opportunity looks like a snake." Even after a decision has been made, people will tend to continue thinking about the other options because they are afraid that they might have killed an opportunity instead of a snake. Once a decision is made, once another idea has been put aside, you should make absolutely sure that everybody focuses on this decision and nobody spends further time and effort on the options. At *Netscape* they hold monthly 'snake-killer review sessions', where all people come together and they spend a day killing snakes and making sure that nobody was still playing with dead snakes.

When you have to make decisions in a startup, you do not sit in a room and just think it through for weeks and weeks and look for a lot of data. You present what you think is a well thought-through plan and discuss it with a bunch of smart people and see what survives at the end of a period of time and then you move forward with that. Especially

people from large companies tend to overanalyze and say: "Let's have a meeting, and let's do a spreadsheet." In a startup and a rapidly changing environment, you cannot be a perfectionist, you will suffer from analysis paralysis. You have to do something and make the best analysis that you can, act on it and then deal with the outcome. You may make mistakes, but that is o.k. as long as you are doing better than the competition. That is an awful tough transition to make.

Proposition: Learn how to make fast decisions with imperfect information and correct the course if necessary. Learn to live with bets. Do not play with dead snakes.

14.8 Result Orientation and Management-by-Objectives

A culture that is based on results, allows people to manage their work themselves. People need to know what the goals and the timeframe are and can decide themselves how to get there and when to do their work. The challenge is to accomplish the task. You should therefore not look constantly over their shoulder to see, whether they have done this or done that. Instead by letting them manage their work you instill a sense of ownership in people for the tasks they need to do. They can do it in their own time, yet it needs to be done, and it needs to be done in a certain time period. It is very much a management-by-objectives. The company sets overall objectives. Then you work together with the people on what the elements are that build up to these goals and which the different people have to deliver on. Since the people know what the company's objectives are they can come up with goals that you agree upon and that they need to accomplish to do their part to achieve the overall objectives. Then you work with the people to establish what the right metrics are to determine the accomplishment of the goals. For example in sales and marketing you have a lot of measurements like pipeline lead, closure rates, etc. You should use metrics in a very cooperative way, so that the team feels like it is their tool to help them succeed. The same thing in engineering you let them come up with metrics. Then you tell them: "Figure it out. Come back to me if you have questions". No micromanagement. You generally want to be more in a coaching mode. There is less of "just do this" and more "here's why you might think about doing this, here's something to consider". Give them as little guidance as people need to get the work done. You define the objectives together and let them execute. You do not question their decisions, but you only ask for results. This respect for other people's abilities is critical. You set the targets and deadlines together and people will have an intrinsic motivation. They want to do it for themselves, they want to do it for their company because they know as they do things the whole company will get more successful. The objectives however must

be very clear and very straightforward so that the people know what their role is, what their job is, and how they need to execute on it.

Proposition: Let people self-manage their tasks. Manage by objectives. Do not micromanage.

Once people have executed the task, you then sit down and review what they have done and try to do an honest review. Supervision therefore generally takes the form of coaching: you give help in defining the goals, and then people receive encouragement and assistance in achieving them. Thus it becomes a continuous learning environment. This type of feedback is important no matter if they are in engineering or accounting. Everybody has to be ready to accept advice and suggestions and be willing to learn every day. You should not review people against each other. You should value people's differences, because when you are comparing people you are always comparing apples and oranges. No two human beings are alike enough to have these comparisons be very effective. If you are doing these comparisons you are creating stars, you say somebody is the best, but that means you are creating a whole bunch of losers. Instead measure people against their goals.

Another implication of the result-orientation is also that face time does not matter. What matters is getting your job done. Sometimes people leave early, sometimes people work very late and weekends to get the job done. You move from an hourly, contract based system to a result-oriented contract free system. The leader must only make the values strong enough so that they actually manage the company. *I don't care what time people come to work. The company is based on a set of commitments and values. And we have a value here called meeting your objectives. So if you come in at 10 o'clock, I don't care. I care that you meet your objectives. You won't get any brownie points for being here from 7 o'clock in the morning to 10 o'clock at night. You will get brownie points for getting your work done, for meeting your objectives (Peter Schmidt, Midnight).* In a culture where the things which are valued and rewarded are well known, people manage themselves to those things. It is human nature.

14.9 Key Characteristics of a Successful Culture

Apart from the value system, the people, the mission, the information and communication flow, and the decision system the culture influences other areas of the company which we will discuss in the following.

14.9.1 A Team Work Culture

In order to facilitate people working together you need to create some team rules:

1. Direct, honest and open communication, all the time, in every interaction. Whether it is the good, the bad or the ugly. We are dealing with the truth. And smart people like to be dealt that way.
2. No idea is a bad idea. You can say anything, anytime. Even a crazy idea may trigger a great idea in somebody's brain.
3. Always raise the standard. As you raise the standard some people will not be able to keep up with. You either help them, or you move them into a new role, or you let them go.
4. We are team first and functional specialists second.
5. Hire the best people, especially when they are better than you.

14.9.2 An Egoless Culture

In an egoless culture you need people to understand that it takes more than just what they are doing to produce success for the company. There are many pieces to the puzzle to get the product out there. If the office manager messes up, you are in trouble, because you cannot get your work done. People have to realize that everybody's job is necessary in order to get the things out.

Proposition: For an egoless culture people have to understand that it takes more than what they are doing to produce success for the company.

Rather than focusing on the individual, you should focus on what has to be accomplished. Do not put the burden on one person alone to make something happen, but rather focus the team's intellects on what the problem is and what the most reasonable solution to it is. And that is the way you keep egos out of that. It is when you put heavy

dependence on a single individual that you both burden him but you also empower him to be more important than anybody else in the company. You should approach everything as a collective exercise, so that you should say: "That's the problem, how are we going to solve it?" Rather than say: "Jim, go solve that problem for us."

Proposition: Do not focus on the individual, but what has to be accomplished.

An egoless culture means also that people should let ideas float and even when they had the original idea they should not assume ownership of the idea. If they assume ownership of the idea, criticism of the idea feels like a personal attack. Since the goal is important and not who contributed how much, one should let the idea float freely and not attach one's own ego to it. And that is really tough to come to terms with for an entrepreneur, because a lot of the times the initial seed of the idea came from him. If you are smart enough however you realize that these people are actually trying to add value to your idea. Therefore the moment the idea is born, it is open to be improved by whoever can add value.

Proposition: Put your ego aside and let the idea float. Once it is born it is open to be advanced by everybody. There is no ownership of ideas.

In an egoless culture, the objective is always to accomplish the goal, and not to satisfy one's ego. That is something probably everybody has to learn so that he can change his behavior. It is tough. Because it means that in whatever you do you have to think of what is best for the goal instead of what part am I playing. For example for a meeting that means that it does not matter how much each individual contributes, but that the best solution is achieved. If everybody really puts his ego aside, people will almost always agree on the best solution and thus be much more successful.

Proposition: Do not let your ego get in the way of the effectiveness of the organization, the achievement of the goal and ultimately the success of your company.

If problems come up, in an egoless culture people do not look who to blame but they look how to solve the problem. They do not say who made this decision, but rather what are we going to do about it. You really have to keep moving forward quickly. If you spend a lot of time thinking about who made this crazy decision to begin with you will lose a lot of time and in the larger scheme of the things it will not do you any good to find out who made that decision because it probably was a good decision when the

decision was made. That is exactly what *Microsoft* does. When *Microsoft* comes out with a product, the competition laughs and says it does not have this, it does not have that etc. *Microsoft* then makes this number one priority, number two priority, number three priority. *Microsoft* cares about sales. But they care more about the sales they do not make. They lose a sale, that is where all the efforts goes. Why did we lose the sale? They are looking for what made them fail, and how they can fix it. Rather than dwelling on the things they did well or complaining about the problems, it is a constant thinking, how can we fix it. Rather than asking who messed up, who made that decision, they ask why we failed. That is a very egoless thing.

Proposition: If problems come up do not look who to blame but look how to solve the problem.

Also, in an egoless culture it is important to understand what effect one's own work has on others in the organization. Always be aware of what impact your work has on others. You can program something in a way that might give you a certain feature but that might be very tough to test or very tough to document. That may make it not as good. It may make your job easier and you may make the marketing person happy because you programmed it a way that it does something really cool. But it is going to be very tough to test, so that it is going to take a lot more time to test, and very difficult to document, and very difficult to support, so suddenly you made it harder for other people. So in the overall perspective it may have been the wrong thing to do. Therefore you need to get people to understand the implications of what they are doing and the overall view of things. Always think of the overall goal. That can sometimes mean that it may be harder for you, but better for the overall company. It may mean that you have to throw out something that you did, because it turns out that the product needed to be changed. It may mean that you have to put in some extra hour in this week and that person does not have to put some extra hours in this week, but he will put them in another week. The motivation to work for the overall goal instead of what oneself is doing is a very important part of the culture. The ego should become of the project, not of what you are personally doing.

Proposition: The ego should become of the project, not of what you are personally doing.

14.9.3 A Meritocracy of Ideas

Closely tied to an egoless culture is the concept of a meritocracy of ideas. What rules are good ideas, not you because you are the boss. It does not matter where the idea comes

from. If it is a good idea, it is a good idea. If the receptionist has a better idea, use her idea. For a meritocracy of ideas, you need to build a culture where ideas are heard and executed upon. It is everybody's responsibility to try and have good ideas and to make sure that one's ideas are heard. It is not o.k. to complain. If you are complaining you are not thinking of how to make things better. It is your job to think about how to make things better. It is not o.k. to notice a problem about something, and not say anything about it. A successful culture should be a meritocracy in everything. It does not count when you join the company, what you do, what your job is, but the only thing that counts is what you contribute to building the company and making it successful.

Proposition: Create a meritocracy where it does not count when somebody was there, what he does, and what his job is, but the only thing that counts is what he contributes to building the company and making it successful.

14.9.4 A Risk Culture

Bill Gates said that he was never afraid to take a risk and to venture into new areas because of making a mistake. He knew that the people at *Microsoft* were smart enough, that if they made a mistake they would discover it early enough to back out of it, and correct it and move on. That is the position you have to take. You have to make people understand that it is o.k. to make a mistake. And if they make a mistake, as soon as they realize it, to say: "I made a mistake, what do we do about it. Let's get out of this scenario quickly." If your people make a mistake, 99% of the time it is not because they love making a mistake, it is just that it happened. These are not stupid people, these are smart people. If something is going wrong it is not their fault. It is your responsibility for making sure that they have the kinds of things that it takes to make the right decisions. It is your job to create an environment where people can come up with the right answers because of a free information flow and input from everybody. And actually do come up with the right answers because they know that their ideas will be respected. Therefore never blame anybody. Do not shout and never lose your temper. In companies that have a culture where you are dead once you made a mistake, people tend to hide the mistakes because they are afraid of the consequences. Therefore, you have to create an environment that says we do not want you to make the same mistake three times in a row, but if somebody makes a mistake, we will collectively figure out how to correct it.

For this kind of risk culture, you need to teach people to venture into areas that play to the company's strengths. People should not be afraid to be highly aggressive in areas where they know that they are superior in the skills sets and expertise. Where people should tend to be more cautious is when they go where they have never gone before and none of the people in the team has any experience: So if you have to go in that direction,

let us all be careful here, and recognize that we are in areas where we are not dominant in. But in the areas that play to the strengths of the company and its people you should tell people to go for it. Because even if they make a mistake, they will recover quickly.

Proposition: Create a culture where it is valued to venture into new areas and where it is o.k. to make a mistake and to admit it. Put the focus on how to resolve a mistake and move on.

14.9.5 A "no status, no ego, blue-jeans" Culture

Many successful startups in Silicon Valley have a "no egos and no status symbols for anybody" culture. It is a no star culture! The team is the star! They do not like creating a star. They do not want anybody coming through the door to be less respected or to feel that they have to wait for six months before they can earn their right to participate in the company. The first day a person comes into the company they want him to feel as if they had been there from day one.

Proposition: Do not create stars.

In such a culture, you can talk to anybody at any time, you do not have to go through the organization chart in order to ask the CEO a question. It is a non-status environment where people can openly criticize what the CEO does, what the board does, what each other does, in an environment where it is challenging but not negative. In this kind of culture, people will not let any wrong things go by without saying so. It is a lot of work to create such an egalitarian culture. Usually everybody, including the CEO, manages his own schedules, and reads his email himself. They usually do not have secretaries, but only assistants who are there for several people and help organize travel and group meetings. The CEO would regularly walk us to the door, and everyone was not only dressed, but behaved casually. People who still believe that the more people report to you, the more important you are, will not feel comfortable in such a no-status environment. It is an incredibly informal approach which allows a more open interaction and flow of communication. There are absolutely no kind of formal barriers. People behave just completely natural.

Proposition: No egos and no status symbols for anybody!

Casualness itself is a value. In Silicon Valley nobody wears a suit or a tie. There is a statement that is made through the casualness which is that the dress you are wearing does not matter, but only the ideas and contributions you come up with.

Proposition: A blue-jeans culture is good because it breaks down barriers among people. Dress casually in your company .

Who you are is only relevant in how it comes out in what you do, what you achieve, and how you work together with people. That means there is much more tolerance for social diversity. In successful startups, you would not be surprised to find people with nose rings, tattoos and long hair. You should really value people not for what they look like, not for what their political beliefs are, not for who they know, but exclusively for what they can contribute.

Proposition: Value people not for what they look like or for what their habits are, but only for what they can contribute.

Diversity is in fact another key issue of a corporate culture. The culture should express clearly that diversity matters. Do not try to hire people like yourself. And respect each other's differences. In the cafeteria of one company we have seen a map of the world titled "Where were you born?" with flags pinned into at least a dozen countries all over the world.

Diversity really means everyone's antenna is pointed at a different direction, so when something is happening in the market or with the customer, we actually pick up the signals more reliably. (Alan Ramadan, Quokka Sports).

Proposition: Diversity matters.

In such a "no status, no ego, blue-jeans culture" people work in very modest surroundings. In fact, the successful ventures we have seen struck us through an incredible modesty. We have visited companies which had invested millions of dollars and still the most senior executives would work in very unspectacular, almost empty offices. A computer, a phone and a desk were often the only furniture they had. In one case the interviewee even apologized for the luxury that they had inherited from the predecessor who had gone bankrupt. Most of the employees and executives that we have

seen are working in small cubicles or tiny spartanic offices often without windows. The little furniture was often out of plywood.

Proposition: Sparta Rules. Your offices should be modest and they should breath noise and excitement. Create a culture and a surrounding where people behave completely natural.

Often employees are wearing T-shirts, are using mouse pads or drink out of cups with the logo of the company on it. Some companies have ping pong paddles with the company logo on it. The walls are taped with photos and water pistols or other toys in the offices as if it were as natural as having a PC. A company called *Junglee* had the company's offices decorated like a jungle-village. There is always some bustling noise and the offices breath a lot of fun and excitement, life and activity.

In a startup people will often spend more time in the company than at home. However, only if they feel comfortable at work they will be willing to do so in the long run. A lot of companies therefore serve free dinner in the evening, so that the employees can feel comfortable to work late. Sometimes there were beds in the offices so that people could spend the night in the office. In one case an employee had actually been living in the office for two months, sleeping on the CEO's sofa.

Proposition: Make the workplace comfortable for the people, because they spend long hours in the company.

In another company we were sitting in a kindergarten-style so-called 'Romper-Room', which was full of toys. There was a shoe-rack at the door with a sign saying: *Leave your ego, your preconceived notions and your shoes*. Everybody could come into this room at any time, play with toys, get some distraction, think, and people would meet there to discuss things. People used the room frequently. Still, another company had a basketball field and a relaxation room where they had a massage table and relaxing music. They have a masseuse come in twice a week to the office and everybody can sign up.

Silicon Valley is like Disneyland! (Wes Patterson, Chromatic Research)

Proposition: Do some off-the-wall things to make it a unique place to work.

14.9.6 A "don't-let-the-others-down" Culture

One person cannot make an entrepreneurial venture succeed. In a startup even more than in a large company everybody relies on everybody else. Therefore everybody needs to have a commitment to their peers, to their friends that they are getting something done. Nobody wants to let the others down. If you have to get it done by the end of the week, you get it done. No matter what. If that means you have to stay here until 2 o'clock at night every night to make it happen, people will do that. That is the culture that you need to create. Once there are 20 people who feel that way, when the 21st new recruit comes into the company, that is infectious. You feel that energy, passion and drive. That culture is contagious. It is what makes the people in the company do extraordinary things in an impossible time frame. It is this culture of not-letting-your-friends-down that makes startups so successful.

Proposition: Create a "don't-let-the-others-down" culture.

14.9.7 A Fun Culture

The other thing is since you are working so hard and since everybody has to make an excellent job, you need to make it a lot of fun to work, too. You need to create a work hard, play hard kind of environment. So you need to have the right outlets for fun and team building. A lot of companies have ping pong tables in the offices. Things like a ping pong table, are a great outlet for instance for engineers during the course of the day, when they are cranking on the code all day long and there is just some bug, that they just cannot find, they need a break, and they go and play ping pong for a game, and that just lightens them up. When one company in Silicon Valley celebrates for instance the commercial launch of a product, they have an all-day ping pong tournament. Everybody gets involved and signs up for a team. Also, whenever there is a new big movie coming out, if it is associated with releasing some new version of the product or something, one company in Silicon Valley will do a celebration and buy movie tickets for everybody. They go and get popcorn and sit all in a big group and watch the movie. When there is a lake nearby, they go down and go kajaking or canoeing and have water battles out in the water. There are also companies where the whole team of the company goes playing broom hockey on ice. Besides, companies in Silicon Valley often have their own grill where they barbecue on a pretty regular occasion when the weather is nice. They have holidays, parties and things like that all targeting towards making sure that people have a lot of fun along the way as well so that it does not feel like it is all work all the time. That is definitely a key part of a successful culture.

Participation is generally very high. One reason is also that they have different activities. Some things are ongoing. And then there is at least one activity like barbecues, movies or going down to the lake once a month. And sometimes in the summer more often. When you do these activities you should try to plan them to make sure that they include everybody in the company. If companies go to the movies, have a barbecue or go down the lake, usually it is everybody in the company that participates, which is what makes it so fun. And people love it. It is a great break from work, but also a great socializing event. It helps to balance out all the incredible hard work. The employees really look forward to it because it is the time when they all come together and they do more than ever feel that they are part of a team of people that are all there to make the company successful and to have a lot of fun in the process.

It is important to keep doing that as long as you possible can, and even when the company has grown I would sacrifice maybe on frequency, but still make sure to do it, even if it meant like renting out the movie theater. One of our jokes, in fact one of our indirect goals is to grow big enough as a company to fill up the movie theater so that we can rent the movie theater just for us. It's kind of a fun goal. Each time we go we take up a bigger space, and say, hey, we are getting there, we are going to fill this thing up. (Doug Brackbill, Visto)

Proposition: Make it a work hard, play hard environment. Organize a lot of fun activities in order to make your company a fun place to work. So that people feel that this is more than a job, that this is a big part of their life.

14.9.8 A Family Culture

The companies also try to include the families whenever they can, so if there is a barbecue at the end of the day, they encourage everybody to invite their family and kids over. They know that there is a big sacrifice for people who have families to work so hard in a startup, so it is important to get the families to have some fun and reward, and to participate in some of the activities as well. Besides the family will then be much more supportive.

For people who have families, you might even need to give them a computer for home. Many startups provide people with equipment for their home. People can go home and have dinner and work from home. And you need to give them good machines for home, so that they can really work from home. The thing about being home is to show up for dinner and to be available, even though you are in the other room working, for your

family it is important that you are at home. They feel that Mom and Dad are at home, because if you need them they are there. This accommodation of family life adds to the quality of work and life. You can go and pick up your son from a baseball game in the afternoon, because the people know that you will stay up all night to finish this thing by the time it has to be done. People need a good family life too, that is a challenge, that a company has to address and figure out how to deal with that. You need flexible hours. Nobody should watch when somebody goes, when somebody comes in. Everybody knows when he needs to have his work done. People trust each other and consider each other mature. How you get the work done is your responsibility.

Proposition: The company has to understand that the family is important. Organize events where people come with their families. If you do want to build a sustainable company, you have to care about the families.

14.10 Keeping the Culture when the Company is Growing

The big question is whether you can keep up the culture when the company is growing. The fact is that you can and that culture grows even more important for the success of the company. Because as the company grows, you cannot be everywhere. The values of the culture have to be everywhere in the company. Why does *Hewlett Packard* for instance continue to sustain itself after 50 years? Because that culture is a sustainable culture that attracts enough high-capacity people to keep it going year after year after year. *I got to know Hewlett Packard very well. And in every HP-office around the world, whether this was in Germany, in Colorado, or in the headquarters in Palo Alto, I found the same culture. And I thought: How can that be? And I realized it's not about size, but it's about the belief in how important the culture is. (Michael Skok, Alphablox)*

It is crucial to understand that the culture is the personification of the founders' personalities and their values. Whatever culture you have set for the first 5 or 10 people in the company, that automatically becomes the dominant culture of the company. It needs to be a natural culture, and it may not be an artificial one. Let it evolve from the people in the company. It is not important to write it down. The founders and every person who comes into the company has to live the culture.

To make this happen and to make this work, I (CEO, founder) do a whole day of orientation for everyone who joins the company. I spend an entire day talking about the

business, about my vision, about where we have been and where we are going, why we are thinking we are going to win, what are our challenges, what are we good at, what are we bad at, why, how are we going to fix it. I give them everything I could possibly tell them about the business. That gives them a foundation of the business and then you can talk with everybody in the business. It is the foundation for talking with everybody in the business. Everything is based on history and perspective and if they don't understand it I have no way of talking to them. Therefore I do a whole day of orientation myself. Because they spend a whole day with me and had interaction, they are not afraid to speak to me, we are all equal, I am not removed. (Doug Ranalli, Unifi Communications)

If the culture is good it will be much better scaleable and help you tremendously to manage growth. The culture must be appropriate for a small as much as for a large company, because it is extremely difficult to change a culture. Sometimes it takes a generation of employees to change a culture. Also when you are operating in different countries, culture is critical. When you are growing at over a 100% per year it is very hard to dedicate enough time and resources to these issues. However you need to train all the people in and outside the headquarters in the company culture. The culture will only spread to the new employees if the existing crew is already culturalized. If they are not, they are hiring new people who do not fit into the culture and a downward spiral begins. It is a self-fulfilling prophecy if you are doing it well. And it is also a downward spiral if you are doing it badly.

Proposition: The larger the company grows, the more time you should spend on reinforcing the culture and the less you should spend on daily operations and making decisions.

14.11 Leadership

A leader needs to build a vision for the company, to assemble high-performance teams to execute the vision, to reinforce the company culture and to create a sense of urgency.

14.11.1 Building a Vision

The foremost task of a leader of a startup is to create a vision. This vision he needs to sell to employees, partners, investors, and customers. And then he has to make sure that the vision is executed. The biggest challenge of selling your vision is internal.

Proposition: You need to sell your vision to employees, partners, investors and customers. Selling the vision internally is the most difficult.

Therefore, you should try to clearly articulate the vision, what the mission is and what the objectives are. You should try to keep it very simple, so that you can get everyone kind of rally around these objectives. It is critically important, that people understand the vision and the goals of the company. Therefore no matter how big you are and at what stage you are, what is important from day one and what will be important until you ever leave a company, is that everybody clearly understands where the company is going and what it tries to accomplish. Everybody needs to be on board of what the company is doing and share a common set of goals.

Proposition: Clearly articulate the vision. Keep it simple.

If everybody agrees on the top level objective which is for instance to build the largest and commercially most successful internet community (*Geocities*) then you can together work back from that top level objective and develop by department what every department and ultimately every individual has to do to achieve that top level objective. If not everybody agrees on what the primary mission is, you cannot build the organization underneath. People really need to buy in and feel that they are active participants. If it is just your vision, and not theirs, because they have not bought into it, it will not work. Because if somebody does not believe in what he is doing, you have to check on him all the time. Therefore you need to work with people until they agree with it. Once you reached an agreement and people go off, they will work towards the same common objective but they are going to get there on their own way. Only this creates maximum value.

Proposition: First get the vision understood, then develop together the objectives of each department and each individual from there.

You need to give people an ambitious vision, a vision that reaches for the dream. You need to give them a vision that they are not going to be a 60 million dollar company, but give them the vision that they are going to be a one billion dollar company. "So let's go build that."

Proposition: Create an ambitious vision.

As a leader you need to keep smiling, no matter how bad things get. You must be consistent so that the other people in the company do not really feel the rollercoaster ride the company and you are going through. It is not right to burden all people with all of the company's problems such as raising money for instance. It creates stress for too many people. In fact, you are just passing stress on to them, because they cannot raise the money. You rather want to provide as much shock absorption as possible for everyone else. Always. If the leader is changing back and forth all the time, "oh, we are going to be huge, oh, we are not going to be that big, we are going to go this way, no, we are going that way", people get scared. Because people do not like ambiguity. In periods of fear, uncertainty, and doubts, the leader plays a very important role in keeping things moving into a positive direction. And be careful not to set off a negative circle, where people get confused and ultimately get scared, when you have to change course. You really need to be consistently optimistic when you are in the company and you have to spread this optimism around your environment.

Proposition: You need to be consistently optimistic when you are in the company. You need to make people believe that you always believe in the vision.

Because if you get down, everybody gets down. When everybody gets down, no one gets out of it. If the team gives up, you cannot fight anymore. Therefore whatever it takes you have to keep people believing in the vision.

Proposition: If the team gives up, you cannot fight anymore. People must never lose their belief in the vision.

In a startup there are always people who get scared: "*Cisco* is going to beat us" or "We will never be able to win that account." As a startup you have all odds against you. You do not have as much money as *Cisco* does, you do not have as much people as *Cisco* does, you do not have as many customer relationships as *Cisco* does, and you do not have as much technology basis as *Cisco* does. What it takes therefore in the mind of the leader is a very clear understanding of what it takes to succeed. Why is it that *Cisco* will not be able to do what you do? Whether it is execution, focus, speed or something else. You should not get distracted by the skepticism and doubt people have and never let the fear and skepticism spread from one person to another. By making sure that you communicate the vision of "This is how we are going to beat *Cisco*" you help people believe in the company. This is how you are going to win. This is how you are going to win the race.

Proposition: Make sure that you never let doubts emerge and spread from one person to another. When doubts emerge you deal with that one on one.

You need to turn everybody into a believer. And once everybody is turned into a believer you get their emotions engaged, you get their commitment and passion burning. Then there is nothing that can stop the engine.

Sometimes you feel like you are playing the role of the Messiah. You got to make the people believe in you, in your vision. If people stop believing into the vision, doubting the vision, everything falls apart. (Nimish Shah, Sentient Networks)

Proposition: Turn everybody into a believer.

As a leader however you have to take the responsibility of doubting every decision. But never doubt it while you are with your people, leading the team, but rather in the shower at home or between one o'clock and five o'clock at night. There is a term which says: "Be careful, sucking your own exhaust", which means that you should not believe your own marketing pitch. On the one hand, you got to turn the market and the people inside the company into believers, on the other hand you must know what your doubts are. And then you will know what your defenses are and what your strategies could be to make sure that whatever it is that is causing your doubts you attack the roots. You got to worry at times. And sometimes there are also instances when you have to make your people aware of your doubts, because they are part of the decision making process. But you communicate these concerns in a very responsible way, so that they take ownership in the decision with which you will encounter these concerns.

Proposition: Doubt your decisions, but doubt them when you are not with the people. And if you communicate concerns present a plan to solve the problem at the same time.

14.11.2 Building Teams

The individual performance of a leader can be broken down as follows: 10% of it are your specific results, 90% of it is building the team around you to do better tomorrow than today. Thus very little of the company's success is the direct result of your own technical expertise. Instead all depends on the performance and the development of the company's team. Therefore it is the leader's primary task to build high-performance teams. And you have to work on the building of the team, not only the day you create it but ongoing every day. Every single day, you need to build the team to be stronger than it is today.

To build high-performance teams you need to do two things: Hire the best people and get them to work together as a team.

Building a high-performance team is like building a skyscraper, the first thing you do is you dig down 40 stories and make a foundation. The foundation are the people. You need the best people as the foundation (see Chapter 14.3 on People). You have to have people who have the energy to make other people invigorated and energetic. You have to pick them and empower them and then you have to build teams from these people and empower the teams. It is getting power by giving up power.

Once the foundation is laid, the hard part is to get everybody to work together as a team. There are three fundamental points to that:

1. Set a clear direction. Where do you want to be and what is the road map to get there? That is crucial, because when you deal with a lot of smart people it is like herding cats. "I want to do it this way, I want to do it that way ...". You have to herd them all in the same direction. You have to herd the cats. That is really hard to do. Because they are all independent, they all want to go in different directions. You have to stay on top of that and figure out ways to be able to do that all the time.
2. Always raise the standard. Never be complacent. Always raise the standard concerning the people you hire, the processes, the product, the quality, everything.
3. Create a safe environment. An environment that allows people to take risks. When you build a company from scratch you are doing stuff that has never been done before. You are running controlled experiments. It is not like working at *Daimler Benz* where you have a procedure manual. If something goes wrong and you chop someone's head off you will never have the others taking risks anymore and you will not be getting the truth anymore.

Also compared to a large corporation, in a startup you do not have extra people. You do not have a lot of bench strength. It is like the Chicago Bulls playing basketball. There are usually twelve people in the team, only five in the court at any time. The rest are the bench. In a startup you have only five guys. That is all you have. You do not have any bench. So you have to make sure that every person is happy and motivated to perform at full speed.

To motivate them you really have to find out what is at interest level to the people. For some people it is security. For some people it is the new technology, the new idea, the quest for knowledge. For some people it is the journey. They want to be part of the journey. They want to be part of something really important. Part of something that is exciting and fun. Part of something that changes the world. Some people will be there for the money. Therefore, since you have no bench to rely on, you really have to understand what motivates them, what they like, and what they do not like. You are dealing with people. And people are different. You have to give them what they are individually motivated by.

Proposition: You need to find out what each individual motivates and try to give them what they are motivated by.

14.11.3 Reinforcing the Culture

The more the company grows the more the leader must be concerned with reinforcing the culture. Because the more the company grows the less he will be around to make sure that people behave right and make the right decisions. It becomes all the more important that culture and values run the company. Management-by-walking-around is a key ingredient of reinforcing the culture. You should spend a little bit of time with each individual, even if it is just a moment or two. Thus people know that you are around and that you are thinking about the problems of the company and trying to do something about it. You should go and talk to the people all the time and ask: "What do you think about this, where do you think the industry is heading, what should we do first?"

I was general manager of the Apple Power Book division and I had 800 people. I had two buildings that were four floors and I would walk around almost every day. Just to see who is around. It usually took me three hours. Like from 7 o'clock to 10 o'clock at night. It is important to be visible as the manager. People want to see you. It is not about products. It is about people that make those products. Finding really good people and holding on to them and nurturing them and making them part of your family. (Dale Fuller, WhoWhere?)

Proposition: Do a lot of management-by-walking-around. Do take the time to walk around.

14.11.4 Creating a Sense of Urgency

The key to invigorate people and to build up momentum that makes people do extraordinary things in an impossible time frame is to create a sense of urgency in the company. You do that by setting important milestones as illustrated in the following example:

Netscape was very intense. They would artificially create intensity. They called it a 'strike'. Basically, you pick some day which can be totally arbitrary, that is D-day. And you set up a big set of goals around that day and tell everybody that it is important for the company to meet these goals. If you get enough different groups of people working on it, every individual group doesn't want to let the other groups down. If you get enough people working on it, it speeds up on itself and you get such a momentum that builds up, that you end up getting an incredible amount done by that date. (Richard Fleischmann, Liquid Audio).

You can involve partners in such 'Strikes' too, which spreads the impact even further and more momentum gets built up.

Proposition: Create a sense of urgency. Set milestones and create intensity around them so that momentum builds up and extraordinary things get done in an extraordinary time frame.

Nevertheless, there always has to be a balance, in life as well as in a startup. You will want people to work until 6.00 am in order to hit such a strike, but when the milestone got hit, the phase of high intensity has to be followed by relaxation and recreation. People should spend three or four days out of the company and do all the things they have put on hold in their lives. You have to enable everybody to recapture as long as he needs, because the next milestone is already out there.

I tell them, go, go out of here. I don't want you to be here, because again there is going to be another period that will come and I want you to be here at that time. Do we count how many hours, how many days they are out? No. They are responsible people, they are stakeholders, they have all shares in the company. They want to see it successful, why would they do something that hurts the company? (Vinod Dham, Silicon Spice)

Proposition: Any phase of high intensity has to be followed by a relaxation phase.

14.11.5 Qualities of a Leader

The most important quality of a leader is that he really cares for people. He needs to worry about them. He needs to worry about what they are thinking and what they are feeling, too. The following quotation from such a leader speaks for itself:

I really love everyone that's here. A couple of reasons why. They are talented, gifted, but they choose to be here with me. In this short span called life, these people have chosen to be here. They can leave anytime. To me that's an honor that they chose to be here. And they want to be part of this. I make sure they know that. That I am absolutely blast that they are here. And I make them feel that. I make them know that. Because that's truly how I feel.

And there are people who have left. And I helped them. If they want to leave I help them. I give reference for them. If they choose to leave, if they found something better for them, I am excited for them. I love these people. With that I want the best for them. I make sure that when they leave they are taken care of to the best of my ability.

In that you want to make sure that everybody knows how important they are. Everybody contributes, everybody is important, everybody is valuable. And there is no one person more valuable than another person. (Dale Fuller, WhoWhere?)

Proposition: Make people feel that they are wanted. Care sincerely for them.

As a leader you must be paranoid. You need to make people understand that when the company is overachieving, one should set goals higher, and not be complacent about it. The people must want the product to just be the best product out there. They must not settle for just being equal or a little bit better than the competition, they must talk in orders of magnitude that they want to do it better. That is how you keep the growth going. You really need to be constantly paranoid about your company's performance, because otherwise competitors with a strong focus will overtake you. Only the paranoid survive.

Proposition: You must be paranoid. Only the paranoid survive.

As a leader you must know how to set priorities. In a startup, you always have to prioritize, since you are dealing with scarce resources all the time whether it is money, people, time, or infrastructure. Therefore you need a perspective on what issues are important and what not. First, you need to focus on figuring out the first order problems and second prioritize on them which is very tough. Because often resources necessary to solve one first order problem are immense as compared to solving a lot of second order problems that are easier. The lamppost problem illustrates this difficulty: *It is a story about a person who lost his wallet at night and another person encounters him while he is there searching and searching." So what are you doing? I am looking for my wallet. What happened? Well, I was walking on the corner over there and I looked at my wallet, I picked it out and the next thing I dropped it. Now I can't find it. Why are you looking over here? The light is better over here. But you lost it over there and that is the problem."* The lamppost problem illustrates that you often try to solve something because it is easier to solve and not because it is the right thing to do. (Dan Bricklin, Trellix)

There are people who look very busy, but in reality they are solving the wrong problem. Do not spend time on something that does not matter. Setting priorities means focusing on the right problems. You should focus on the three most important things rather than 15. Let the other 12 fall off the table. You cannot do everything. You have to let it go. If it is important it will come back. If it is not, you stay out. In a startup you need to be able to see the big picture, and choosing the right thing to work on is very important.

Proposition: Prioritize. Focus on the three most important problems and let the rest fall off the table. If they are important they will come back.

As a leader you have to be eager to learn more every day. John Doerr, one of the most respected people in Silicon Valley, is a good example for someone who is eager to learn every day. He walks around with a small notepad and writes down all the time ideas, information, action items to follow up, people, etc. He never stops learning and absorbing and acting on new information coming in. He is extremely nimble and flexible and ready for every challenge. Rather than being afraid of a challenge, you need to welcome and embrace a challenge. Try to live that principle.

Proposition: Embrace challenges. Be eager to learn more every day.

As a leader you must talk less and listen more. If you think you are smarter than other people, you better be a professor and work on your own. To found a company you need a

smart team and even smarter people to work with you. Managing those people you have to listen more and talk less.

Proposition: A good leader talks less and listens more.

As a leader you must never lose touch with the organization. You have to invest in it. A leader has to do all-hands meeting, spend a whole day of orientation with new employees, write updates and even be there even when he is away.

I write notes to everybody in the business regularly. Six page things. For example when I am sitting in a plane. I tell them I am flying from here to here and I am telling them this interesting story about a customer, a partner. It has a very personal touch. I tell them what I am doing, why, what are the big challenges, where we are going. I email it to everybody. I never use management to communicate down. All they do is get in the way. If I have something to say to people I am going to say it. I am not interested in them being a filter going down. I am a leader of all. If I have anything to say about the business, it applies to everybody, they are all stockholders in the company, so I communicate with everybody. (Doug Ranalli, Unifi.)

Proposition: Always stay in touch with the people, even when your job becomes more outwardly focused.

15. The Management Team

In a fast moving world the thing that really matters is who is driving. Who is driving the car. Because you are going to have S-curves in the road, you are going to have animals crossing the road and you are going to have speed limits. (John Hamm, Whistle Communications)

Along with the culture the management team is probably the most important success factor. As we explained in Chapter 6 when we discussed the role of the founder, the founders have to let go control to make the company become more successful. Bringing a lot of energy to the table is great, but unfortunately it is not enough. You will need experience. It is not that you cannot do it, it is that somebody is doing it better. Somebody who has done it before, will be able to make quicker decisions, interact better with customers and so forth. Only an experienced team will be able to create the momentum. You need a team with experience both in the specific niche the company is after and experience in how to manage fast growth. Dilute your equity if you have to in order to bring in an experienced senior management team as early as possible. Make sure to spend enough time, energy, and money on hiring those people and always keep in mind that it is one of the most important things to do. Do research, dig around, talk to everybody you know, pull together lots of names and contacts to find these people. They are tremendously important to your venture since they can leverage it into a really great company.

Proposition: To make the pie big, you have to bring in the expertise which you do not have. It is not that you cannot run a company, it is that somebody else can do it better.

An experienced and complete management team will have a positive influence on the valuation. But also you should not hire it too early. Try to bring the management in when you have proven the concept, and when you have done your homework. You should not try to recruit executives before you understand your business model, since you might hire the wrong people. And as long as you do not know what kind of people you exactly need you can probably not attract the really good ones anyway. Wait until you know what kind of people you need.

You should try to find people who are overqualified for the job that they are doing at the time you hire them. They must be used to running a company larger in size and people than your venture is at the time you bring them in. This overqualification allows them to

be the leader in the future, because they will be able to grow the company and will not themselves be outgrown by the company. However, you also have to make sure that they are doers, because you will have to start small and there is only little staff and infrastructure to back these people up. Just because someone comes from a very high ranking executive job from a big company, does not mean that he is successful in a startup.

Proposition: Hire overqualified management that has run companies larger than your venture. Thus they are able to grow the company and are not outgrown themselves by the company.

The team should be made up of overqualified people, who bring different experiences to the table. The people should not look alike, but they should have different backgrounds. You want a few young people, who are full of energy and anxious to prove themselves and people with maturity, who understand that it is not just hard work but working smart is as important as working hard. This is actually true for the management team as well as for the rest of company. You absolutely need to make sure that the whole team is strong, and not just this brilliant CEO and this great Vice President of Marketing. When you build the company, the culture and the management team, you should truly believe that every function is strategically equal. Obviously, you should not believe that you can win on the best service strategy, but the service strategy has to be as excellent as the rest of the company to be successful. You win through excellence in everything. Everybody has to contribute at the highest level of excellence. Therefore you should hire people who are very strong leaders in their functional areas, which will also enable the company to scale. People who are champions of their functions and are passionate about what they are doing and can also see the big picture. This combination of different skills makes the team far more stronger than anything else. It is very much a crafting exercise. You will make mistakes. You hire someone and it does not work out. It takes a good 12 to 18 months to even just form your basic team. And by that time it is almost time to add some more senior people.

Proposition: The whole team must be strong. Everybody has to be excellent since all functions have to be excellent to be successful. You win through excellence in everything.

When choosing a senior executive, it is of vital importance to make sure that they can recruit other talent needed. You have to build teams top-down. You should actually make sure that the people you hire as part of the management team bring people underneath them. Get people who can be the nucleus for others. Make it a criteria for selecting them that they have a team or at least an idea where to go and get people that they have

worked with. These people have worked together as teams and therefore will function properly from day one so that they will help to get the company get off the ground more quickly. Otherwise you lose a lot of time trying to fill the ranks underneath them. Of course, that does not mean that you should only hire whole teams, but also add other new people.

Proposition: Build teams top-down. Hire people who can bring other talented people underneath them.

Make sure to hire only the best people. If you hire a bad person it will be impossible to hire good people under them. Only the excellence of the team attracts more excellence. People will join because of the other people around them. In addition, a reference hire, such a great CEO from a well-known company, can pull a lot of people from that company with him as well as attract other people to join the company. Do never forget that a small startup is a lot of risk and that the most important criterion for people to join a startup is therefore the quality of the management team.

Proposition: People will join the company because of the quality of the management team and the people around them. Only get the best. If you hire a bad person it will be impossible to get good people under them.

The CEO and in fact the whole management team need to be great salespeople. Salesmanship is really the single most important characteristic they must have. They have to be able to sell somebody on the vision even when there is not a lot there. They have to sell the idea to people in order to convince them to join the company, they have to sell it to partners they want on board, they have to sell it to investors to invest in the company, and to customers so that they buy the product. They have to have a tremendous confidence level that comes across. It is sometimes very hard to do reference checks on that, so that you have to ask yourself: Would I buy from this person? Would I join a company because he is standing behind it?

Proposition: A CEO of a startup has to be a salesperson. He must sell the vision to employees, customers, investors and partners.

The type of people that you need to manage a startup in the early stage when the management has to effectively orchestrate the product development and the product introduction and the type of people that you need to run the startup in a later stage when it is about manufacturing and shipping thousands of products, are often not the same kind

of people. Therefore successful startups often experience significant changes in the management team. In America for a successful startup it is not untypical to have a substantial amount of turnover in the senior management between the startup phase and the maturing phase. It is very untypical for people to start as President and CEO and to remain President and CEO throughout. Often people are just not the right people for every stage of the company. You really should want to have the best people for every stage.

Hiring senior management is really a chicken and egg problem. On the one hand you need to hire senior management as early as possible to grow the company, on the other hand that will be the most difficult time to attract excellent management because you are still a small company. Therefore one of the things you will learn is that because in the early stage you may not be able to get the kind of people that you may need for later, you might not be able to keep everybody that you started with in the company. And even if you do, they will not all have the same roles that they had at the beginning. Often you give people a responsibility for instance where they are the Vice President of Marketing in the startup stage, and at some point the business will simply outgrow them so that they need to let somebody else be Vice President of Marketing and take on another role.

Some of your Vice Presidents might be your booster rockets. That really boost you to the orbit. They are capable taking your sales from zero to 4 million, but from 4 to 50 million dollar he or she may not be the right Vice President of Sales. (Ranjan Sinha, Magnifi)

You have to be able to figure out when you outgrow people and you have to be willing to make the necessary changes. Those changes will have to be made smoothly without destroying the team.

Proposition: You really need the best people for every stage of company development. That means that you cannot keep everybody that you started with in the company and they will not all have the same roles that they had at the beginning.

16. Technology and Market Orientation

Technology is the qualifier, not the winner. In fact, having the best technology matters less than having a good technology at the right place and at the right time. The best example of that is *Microsoft* with MS-DOS. They did not have the technology, they licensed it and it was not the best technology available, it just happened to be able to sell to *IBM* at the right moment. *Microsoft* proves it over and over again. It is marketing, marketing, marketing, marketing. *Microsoft* rarely has the best product.

The problem with technology is that while somebody might be able to convince you that the current state of the art technology is this and that you are right there, who knows if there is not somebody you never heard of who is working on the same problem in his garage, and who comes to market and now you are behind. That leads you back to marketing. Nonetheless in a small company a good technology can help you a lot to compete. Since as a startup you cannot do so easily smoke miracles like the big guys which just put out another press release.

Proposition: Technology is a qualifier, but the best technology rarely wins.

Technology companies frequently undervalue the importance of marketing and assume that the product will carry them. Such companies are doing technology and then say "let the market find us". In fact, engineer-oriented entrepreneurs often do the product, and then they say, okay, the product is done, now we need a few salespeople to sell it. That is not the way to think of. Market risk is undoubtedly the hardest one to see, the hardest one to test, and drains the most money. You think *AT&T* spends a lot on R&D, look how much they spend on marketing. Marketing expenses are far larger than development expenses. Technology companies spend usually 20% on Marketing&Sales and 10% on R&D. Therefore you should never underestimate the financial commitment to build a successful marketing and sales force. It takes a lot of money and you should start early. So when you build a financial strategy for a company you have to think of at least two stages or even three: the engineering product stage followed by the sales and marketing stage and the infrastructure stage (administration, support, customer service). They are not subordinate, they are at peers.

Proposition: Never underestimate the marketing expenses you need and the importance of having a great sales team.

Since market risk is so important companies in Silicon Valley have discovered new ways trying to reduce market risk in the development process. So for instance they have a permanent office at their key customers. Many successful startups have offices at their principal customers who are also their beta site customers. When you have a person there all the time, they make sure that the company keeps up with what the customers' needs are and which direction they are going. Sometimes, they have it the other way round. The customers have an office in your company and work with your people under the same roof.

Proposition: Have an office at your principal customers or have their people have an office in your company.

All in all, the interviews have shown that sometimes it can make sense to have a strategy which combines a strong customer orientation which focuses on today's needs and a long-term technology orientation which looks where technology could go. For the long-term technology orientation you should ask yourself where could technology lead the market, set a point far enough out, pick a target three or four years out, do a product for that point in the market and then hope that the market finds you. Thus on the one hand there is a near-term market share strategy, on the other there is a long-term technology strategy.

Proposition: A short-term technology strategy should always focus on the customers' needs. Sometimes it can make sense for a technology company to have a long-term technology strategy to see where technology can lead you.

17. The Flexibility

When setting up a startup, you think you know what you are going to do, but in fact you never end up doing what you thought you would. You will face lots of marginal course corrections and several major course corrections, at least two or three within the first two years. There are very few business plans of startups that stayed unchanged from startup through success. Most of them undergo a series of transformations along their way, including some of the most successful ones. *Microsoft* for instance started out selling the BASIC programming language. They became an operating systems company, then they became an applications software company, and then they went from there to become an internet company. You need that kind of adaptability.

So often when you launch a startup, you say this is what you will do, and you notionally believe it, but you have to recognize that you will go through a few spins of the idea before you get it right. Companies in Silicon Valley go through 3-4 whole spins of the idea before they get it right. That is why the team is so important. Because if you face those course corrections, only the people will make it happen.

No matter how much planning you do in the early days, you get more information the next day, or the next week, or six months later. Many successful startups have radically changed the business idea between the time they started planning and the time they raised capital and will continue to do so during the first two or three years of business, because the market reality may look completely different than planned. The customers you start with may not be the ones you are going to end up with. The type of product you think you are going to make may not be the product you are going to end up with. That is why investors invest in people, not in products, because they know that the company they are investing in is probably not going to be the same company with the same product in two or three years. You have to be able to adjust and change directions really fast.

You find out something new about the market and you have to act. You can't be passive in a startup. We are selling three products now, two of which I did not even envision two years ago and that the venture capital community that funded us was never even told about at that time! We got money based on our original premise and then we decided to change course. (Jeff Tonkel, Enville)

Changing course often can mean making decisions that hurt. But you have to be ready to make hard decisions. When you see the train coming right at you and you are paralyzed

and do not make a hard decision then in fact you will hurt everybody. You need to be willing to change.

Yesterday you might have focused on a certain problem, but now that you have talked to three customers, you realize that you have to make certain changes. You must be able to make these changes even though you may have been working on this way for six months already. You have to be able to throw it out, to do it differently, because that will get you where you really want to go. You need this willingness to throw out everything and to start anew if necessary, rather than follow stubbornly. It does not matter whether you have gone a long path to get there. If enough information comes together that make you realize that this is the wrong decision, be honest to yourself and change course. Now! That may be tough, especially when you have already invested a lot of time, money and commitment, but it is the only way you will survive.

Half way through our development cycle the world changed and we had to change. Other entrepreneurs might have thought that they already went too far, invested too much, ignoring what was happening. We said we learned a lot getting where we are, but we have to change. We lost some people and we threw away lots of technology, but we survived. In retrospect it is a shame that we lost so much time and money on that lesson, but we would have lost everything if we didn't respond to the marketplace. (Leon Navickas, Centra Software)

Under no circumstances you should be paralyzed, because making no decision is in many ways the worst thing you could do. You have to realize that everybody else is in the same situation as you are, they almost certainly do not have more information. Be ready to shoot down your own prior decisions and if necessary throw all the cards up in the air. Because if you do not do it, someone else will.

Proposition: When things change you need to change even if it hurts and means throwing away all what you have worked on. It is better to mutilate yourself than letting other people destroy you. That is the only chance you have got, because it is only a matter of time when you will get destroyed.

Sometimes even the whole business idea fails. Then you need to be able to pick yourself up, and try something else. *About a month and a half into it, we realized that the business we were originally in was something we couldn't pull off. We were out of a business. We said, before we call and tell our investor that we suck, we are going to try to figure out what else we could do. So we locked ourselves in the office for a weekend*

and threw all our assets and everything we did well on the board, trying to come up with things that we could put together and create a business out of. (Eric Spitz, Trakus)

Proposition: Even if the whole business idea fails, pick yourself up and figure something out.

Sometimes you do not know whether a fundamental change has taken place and you need to change course or whether it is just some turbulence that you have to fly through but where you have to keep course. *The strategy needs to be a plan that has teeth and is grounded, and is sensible, and is well thought through, but it is also exactly amenable to the conditions in the world. Your plan can't be too amenable to the conditions in the world, that is called a plan that blows in the wind. But you have to have a great understanding when to change the flight path of the airplane. You know there are times when pilots are flying and they can't fly around every storm. They have to decide which ones to fly through, and which ones to fly over and which ones to fly around. When you are running a company there are storms which you have to fly through, and there are other ones you should steer around and there are other ones you should try to avoid. That's the judgement of the management team. (John Harrington, Beyond Software)*

Despite all strategic and operational flexibility, one should try to plan, because it forces oneself to try to figure out the future and in the process you learn about the variables which shape the future. It is as important having a plan as it is to understand which the key drivers are that determine your plan, what the enabling technologies are, and what some of the other players are. It is as important to understand their plans as it is to figure out your plan. In many ways the other players' plans will determine yours. You should spend a lot of time trying to read what the other players' plans in the system are. The question is therefore not only, do you understand your plans, but also do you understand enough of the plans of the key players in the ecosystem in which you will play.

Proposition: In the planning process understanding the variables is more important than the plan. It is as important to understand the other players' plans as it is to figure out your own plan.

Besides the skill to adapt and change course rapidly, the second important ability is to bring along the constituencies, the people who thought the other, earlier direction was right and who do not have all the information which made you change course and may not understand why you are changing. It is your responsibility to get them on board and make them understand the change of direction and why they have to adjust and to get them again behind the new direction. You should not be afraid to lay out new plans when

new information comes in, instead you need to be open to being wrong and to learning new information and adjusting. It is a tough challenge, and you need the right people who are able to live in an environment that evolves.

In a startup you need people who really see the big picture and are willing to change all sorts of assumptions as things are going, also when it means throwing everything away or making a step backwards. Because in the long run changing course early makes you survive and often even end up with a lead on your competition which might have turned the ship too late. The following quotation gives a beautiful simile for the way you should be ready to change course in a startup:

In a large company if you have a river to cross, you come to the river and say I want to get to the other side and then you build this bridge, and the bridge goes across and you march all the troops over it and you get across. In a small business you don't have the resources to do that. You are down on the rocks going from stone to stone to get across, and you basically know the direction you want to go, but any given point you have to choose, very quickly choose from one to the other. If you have ever done that crossing the stream, you know the feeling. You are very much concentrated on your next step, but you are generally trying to go the right direction, sometimes you have to doubleback, but you can get across sometimes even much faster than the other way. That is the feeling that I always get running a business, that feeling of crossing the rocks. You are constantly making little decisions none of which seem that important at the time but might be in hindsight. But you have to make the decision otherwise you stand there, sometimes you get wet. You need people that are able to work in that environment. That is a very scary environment to some people, because you don't know exactly what your next step is. You must be able to deal with uncertainty and still know where you are going. And be able to say I better do not go down there, because I know down there it is too deep. That is also when the big picture comes in, because when you make these decisions you have to know where you are going. (Dan Bricklin, Trellix)

18. The Focus

One of the earliest mistakes so many startups make is that they try to do everything. They try to satisfy every customer need and request in every market where one can use their product. That is the biggest mistake to make. It is tempting to do everything, but you cannot. Learning early to say "No" is therefore very important in the early stage of a company. We are capable of doing that, but we are not going to do that because we are going to do this, and only this. It is really hard to learn to focus in the early stages of a company, especially if you have a product or technology that can be broadly applied to many different markets or customer segments. It is tough to say, "Sorry, we cannot take your order", when companies call. You have to let certain opportunities go away, you cannot chase every business opportunity. It is a hard thing to focus when you still have very few customers, but it is really valuable. And you almost cannot focus too much.

There are two reasons why focus is so important:

1. You have to focus the very tight resources that a startup has on one particular product and one set of customers. Otherwise you will get distracted and you will end up achieving nothing.
2. You have to clarify to the market what it is that you are doing. It can help a small company a lot with the customers, if it can say: "We focus on this particular product and nothing else and that is why we are better than this big company." You should put all your energy into something the company does uniquely well and build alliances to do the rest.

Focus and speed are really the most important advantages that small companies have in the competition with large companies:

The focus is laser focused. There are no distractions, everybody is a 100% focused on the specific market the company is going after, and if the market changes, or if the company learns by its own maturity that this is not exactly the right business they are going after, it takes a nanosecond to get the company refocused on a different direction. For a large company it might take them ages to get it completely refocused. In a startup you get together, 10 people in a management meeting, and 15 people in a company-wide meeting and within a day you are refocused on a different strategy. That is what makes startups successful. (Nimish Shah, Sentient Network)

In order to laser focus, it is critically important to keep in mind that the clearer you understood the customer needs, the clearer your objective and mission will be. And the clearer your objectives are, the clearer you will be able to set your priorities, the easier it will be for you to say "No" to nine out of ten things, because in a startup you have to say "No" to nine out of ten things. And as your team grows they in themselves will be able to say "No". So they will stay focused more automatically the more clearly you have defined your mission.

If you are not saying "No" to nine out of ten things which come to your plate in a startup, you are doing something wrong. Because the broader your product is, the more ideas you will see. What people forget is that every idea has its own market dynamics. Although the product or technology could be used in multiple ways, to build a market around it and eventually a company around it, takes tremendous time and resources and the synergies break down very quickly. So it is really important that you take the product or technology, focus it to one market need, establish your credibility in there, establish your basic revenue model and then you can always go into other markets. But if you are not focused and have not built the first step of your company well, your basic market entry and market development strategy, you never can achieve the market leadership. Because to enter and to develop markets you need a very tight focus on one market. And many companies fail because they are unable to take a product or technology and focus it on a need or a market. Either companies can never do that and they fail because they run out of cash or they try everything for two or three months and then they are trying to go after two or three markets with limited resources. In the end they never develop any market and fail. You need to stay very focused in order to avoid distraction.

Probably the more fascinating your product or technology is, the more brutally you should focus on defining the market need you are going after because you can get more and more excited about the possibilities of your product. The more boring the product or technology, the more you are compelled to look at one market instead of ten.

Out of the alternatives which you can address with your product or technology, usually bet on the biggest market. The larger the market, the more forgiving the market is. It is more tolerant to errors. It gives you a better probability of building enough momentum. Always go after the biggest market you can think of. You only have to do this one market, but really well. But when you go after this biggest market, clearly within you must have a game plan of what is the first need, you are solving and then go to others.

The successful companies started out with an extreme focus. They figured out what they are good at, and it is usually not very many different things, and they stick with those things and focus on them. You can branch to other products later when you have the

resources and the people. But the lack of focus often creates "Living Dead", companies that are too small to make it big, and too big to die. They do a little bit of everything. There are people who spun off one of the opportunities and rather founded another company than dilute the focus of the existing one. So important is focus.

Always remember that most companies die of indigestion, not starvation. They do not die of a lack of opportunities in the world, but they die because they try to tackle too much. The absence of focus even for an eye-blink can lead to disaster. Focus is very key. A fail of focus will kill the company.

Proposition: In the early stage, focus on one product, one market and one customer segment. Do not chase every business opportunities you can. Otherwise you will get nowhere. Learn to say "No".

19. The Execution

There are lots of ideas. The hard part is really executing on the ideas. Execution is taking the idea from an idea form and actually turning it into an executable plan that you are working against. Taking it to the point where it is meaningful, where people can see it, smell it, taste it, hold it. That is where many people fail. Many entrepreneurs have said, that the idea is only 10%, the rest is execution. The execution is actually making it happen.

Often it is not the idea that is flawed. It is the execution. Some companies fail because they do not even get the first product to work, some companies fail because they cannot do a follow-up product. A lot of companies fail because they cannot recruit a good team. Others fail because they do not raise enough money, some fail because they spend the money wrong. Again others fail because they never get the business model right. Great idea, poor execution is indeed the most common mistake being made.

The reason why startup companies are successful is almost always because they act like gazelles around elephants. And you don't have to look any further than the major companies that you know well to see how slow they are to move and what a great opportunity is presented by fast-moving firms. The same is true almost everywhere we go: Quick, decisive, swiped, seamless execution is the number-one success factor. (Ken Morse, Massachusetts Institute of Technology)

It is very different figuring out an idea and executing an idea. You go through a real mental shift. People tend not to be good at both of them. When you are in the mode of figuring out ideas, you come up with an infinite number of ideas, and then when you come out of this mode, you just need to stop. You have to go to the next mode and say: "Now I am doing this. All of my ideas will now focus on how I make this business a success rather than looking for other opportunities." You do have to make this mental shift. If not, you better hire somebody very quickly to maintain this focus.

Proposition: You can have the greatest idea and strategy in the world, but if you cannot execute you will fail every time. A great idea is worth nothing without great execution.

Once you are beyond the idea-stage, in the execution-stage you need to do four things: you need to focus on the right things, you need to get things done on time, you need to

take shortcuts and simultaneously build up processes and you need to have people who make it happen.

In a startup environment there are so many competing demands on your time, that it is easy to go from one thing to the other and get lost in the daily work: you need to spend time on day-to-day operations such as burn rate and head count, you need to go through at least semi-formal budgeting-processes, and you need to maintain an eye on the customers and on the market. Ask yourself what you are actually accomplishing. You will need a lot of discipline, but it is almost as important to figure out what not to do, as to figure out what to do. Focusing on larger goals makes it easier.

You should break these larger goals down into smaller goals. You should never tackle a problem as one huge problem. You have to be willing to approach it one little piece at a time. Because if you look at the whole problem it may be so massive that you convince yourself that it cannot be done. The secret to succeeding is the ability to separate and break a huge problem into a series of smaller problems that you can conquer one at a time.

Because if somebody told me you need 50 million dollars, 6 years with the Federal Drug Agency (FDA), trials on thousands of patients, and hundreds of publications, I would say: I cannot do this. We didn't raise the 50 million dollars at once, we raised one or two or three or five million dollars at a time. We did not do all 5000 studies at once, we did studies of 100 and 200 patients and we build on them. We did not publish all the books at once, we didn't get the FDA clearance in one application, we tackled it a piece at a time. You break the problem into smaller, a lot more manageable pieces and you conquer them and you build your success one piece at a time. (Nassib Chamoun, Aspect Medical Systems)

Proposition: Split any huge problem into a series of smaller problems.

If you want to get there by the time the window of opportunity closes you have to be able to execute so that things get done on time. Typically sophisticated investors will demand goals and timetables where you will be in a year, and evidence by that they will know if you have gotten there. A year later they want to see if you have done what you said you would do. And if you have not accomplished the goals it will be difficult to get more money or at least you will pay for it through a lower valuation.

In a large company execution is done by processes. You set the processes, and if something goes wrong you fix the process, which in turn fixes the end result. In small companies you do not have time to tune the processes, you immediately need to fix the end result. A startup is running with all the shortcuts. Instead of hundred people you have only 30 people to do the same project. Instead of 18 months you have only 9 months to deliver the product. You do not have time to go through all the reviews. You got to take shortcuts. You have to trust the people that you have in your team, that they are doing things right. You cannot control everything. You absolutely have to trust these people. A startup is also about being able to take shortcuts and trusting people that they get the things done on time. With time however, you will need to start building up processes.

Proposition: In a startup in an early stage you need to make shortcuts, but gradually you need to build up systematic processes.

Last but not least, you need people who take the idea and make it happen. People who have finished products know what it needs to turn an idea into a product and to bring it through the whole process eventually to the customer.

20. The Network

Business is very people oriented. Deals get made by people, one by one. In order to be a successful entrepreneur you therefore need a good personal network of people that range from other entrepreneurs, advisors, lawyers, potential customers and suppliers to potential partners and investors. The founders really need a good external network to leverage the company off the ground and to build initial momentum. Success depends on what you know and who you know. Who you know is extremely important, because it is the leverage of your work. The people you know will leverage your work, because of the network you will get information which otherwise you would not or only later hear about. You will get introductions and thus will get into doors more easily, and you will just have a huge pool of resources for help and advice when needed. That is what networking is really about. It is trying to put together the things that you know with people that you know and connecting resources.

Proposition: Success depends on what you know and who you know. Who you know is the leverage of what you know. Thus the network is the leverage of your work.

Therefore if you want to become a successful entrepreneur you need to go and build a network. Networking does not hurt, networking is helping other people and getting help from other people. It is not a one-way street. You figure out whom you can be useful to, and who can be useful to you.

Eventually through networking you will be able to build up a critical support infrastructure which consists of entrepreneurs, venture capitalists, lawyers and customers which will be critical to leverage your work. The cocktail party is for a startup nothing else but a replacement for the corporate infrastructure. There you have a number of people around you with whom you can talk about problems which your company is facing and whom you can ask for advice and concrete help.

Before you start doing something you should always figure out who can help you. If you do not know that person, think about who you know who could help you with an introduction. *We started calling everybody we knew that had anything to do with Reebok or Nike. (Eric Spitz, Trakus).* Because no matter if it is about a contact to a potential customer or a contact to a potential investor, it is all about trust. And having a good network behind you, provides you with the necessary, initial credibility. Also your network can be a very important source of information. There is too much data to absorb

yourself. The key is filtering the data. You do that by sharing your insights with other people in your network. In Silicon Valley often even your competitors are part of your network with whom you exchange information.

Since networking is the most important leverage for your work we want to give advice from the people who did it on how to build such a network:

1. The most important thing is to be useful to people. Because once you helped them, people will refer other people on to you. Networking is really a word-of-mouth dominated thing: If you help me, I in turn say you should visit him, because he can help you or he knows somebody who can help you. Also, actively find out people who you could be useful to and eventually you will get the favor repaid. Look wherever value can be mutually created. Help other people achieve their objective. That is what makes networking a fun thing.

Proposition: Try to be as useful as possible to whoever you meet. Then other people will refer other people to you. It becomes a self-fulfilling prophecy.

2. Actively suggest that two people meet each other. If you say to somebody that he should meet this person, it can be helpful to the people and to you as a networker. Because if only one of the people you suggested is very useful, this will tremendously increase your reputation as a networker.

Proposition: Actively suggest that two people meet each other.

3. Actively make it your business to meet people. Identify the people you want to meet. Figure out who you want to know whether they are engineers, inventors, CEOs, executives of companies, or other people. If you found somebody who you think is doing something interesting, take him to lunch, take him to breakfast, take him to a coffee, have drinks with him, whatever. Find the people at conferences that are interesting for you and set up a dinner. At parties and events you should be very gregarious, you should speak to everybody and know everybody. Get out there and get known and be social about things, but do not worry too much about whether you are going to do a deal later on or not. Not everybody becomes a good contact. Be a naturally social person.

Proposition: Actively make it your business to meet people.

4. Try to get into industry functions. You should try to get into industry standards setting groups or get involved in the public sector side of the industry you are in. This involvement in industry functions and industry groups will lead to important contacts.

Proposition: Try to get involved in industry functions.

5. Run events and activities. You should host parties and events. Both parties that are oriented towards certain topics and fun parties. You should organize events like a "Technology Breakfast Series", "Entrepreneurship Meetings", "Breakfast with the Stars", all kinds of events that bring together interesting people. These events are a tremendous opportunity to get to know interesting people and to get a first contact with people. Because running these events is a great excuse for you to call somebody up or send an email and say "Look, we are running this event, we hope to see you there. Will you come?" And they will say : "What is it about?" And then you have the first contact with this person. If you host these kinds of events, people will get to know you. And they will identify you with a certain topic, for instance entrepreneurship, and refer other people to you for that topic. Therefore when running these events you should be extremely visible doing that. You really need to sell it to everybody. A lot of people out there should get to know you, especially if it is an event you can be nice with to other people, that means an event that other people are happy to participate in and are glad to be invited. Be essentially nice to everybody.

Proposition: Run events and activities that allow you to get to know lots of interesting people.

6. Remember people's names and faces. The ability to remember who they are and to know things like their wife's name, the number of kids, the school they went to, etc. is a very useful tool to be a good networker. Because even if you have met a person only one time and the person hardly remembers you, you can address this person and gain intimacy because you remember things about them.
7. Have a really good personal contact data base.

All in all, you should be helpful and useful to people, you should identify who the interesting people are and actively go out and meet them, and you should get involved in industry functions and run events and activities and be very visible in them. You need to

work on your network every day. A reputation for networking is after all beyond oneself. It is other people saying this, and after a while it becomes true. It is a self-fulfilling prophecy. Therefore be useful to people, so that they go out and tell this to other people.

III. GROWING THE BUSINESS

21. The Partners

Having partners in place will give you air cover in the market, so that when you go to a customer you are viewed as the glass half full rather than the glass half empty. (Mark Gorenberg, Hummer Winblad Venture Partners)

Nobody ever got fired for buying *IBM*. It is the safe bet for the department manager to buy a product from *IBM* because there is no risk to that purchase, because nobody will criticize you for having bought from *IBM*. Customers often have a problem to buy from a small company. Therefore you should try to get associated with some large names through partnerships. You will have to do everything to be credible in the eyes of the buyer. One excellent means to increase your credibility is to form alliances with important well-known industry players. Another real value of strategic alliances is that you get an insight into what is happening in different parts of the industry which might have an effect on you. When you are allying with the industry leaders who are forming a new industry, you yourself will become a part of the industry to partner with. In addition, through partnerships you will even be able to lock out your competition, creating high barriers to entry. A successful partnership can therefore create a tremendous leverage, enabling you to grow much faster than you probably could if you were just on your own.

Proposition: Alliances with other players in the industry can leverage your company through providing access to customers and distribution and credibility.

The decision of choosing partners will be driven by who you want to sell to and how you want to sell to them. That is dictating who the ideal partners would be. Once you decided on the category, work with the biggest guy in the category, the number one. You have to partner with the big guys, to overcome the fact that you are an unknown, small company, and thus overcome ultimately the resistance of big customers to buy from you. In addition, once you are associated with the leader in the industry, whoever comes after you will only be able to ally with number two.

Proposition: Think big. Work with the biggest player in the category so that your competitors have to work with number two.

You can tremendously leverage your business by working together with partners that control market access or distribution channels and can influence decisions right at the spot. Also sometimes, you should directly partner with customers themselves. *We will probably end up with offices at several of our major customers. (Wes Patterson, Chromatic Research)*

Building relationships with multiple players will create the biggest leverage, but like anywhere else, you will have to focus and to be careful not to take on too many partnerships. If you try to develop ten partnerships at once, you will find it very hard as a small company to keep them all active and make them all productive. Ask yourself which are the ones that are going to matter the most and focus your attention on those. Once you made them work, you can go from there.

The way bigger companies work is that if the one person you know cannot get the attention and resources of the others, you are not going to get very far. To really make a partnership work, you therefore have to create a network of relationships in the company you partner with. You need to build up both advocates and champions in a company, especially the bigger the company is. You have to find the people who personally and emotionally feel attached to the partnership with you and who can drive it within that bigger company. Identify the right persons and give them what they need. You pitch it to them by telling them why the partnership makes sense for them. Obviously you already know why it makes sense for you, now just think of how it makes sense for them and specifically target them. Make sure to really define the partnership as a "win-win", so that it becomes very obvious to them what they are getting out of it and what the lasting benefit is for them. Try to attract as many people as possible, and give them incentives to help you succeed. The best strategic alliances are when both parties bring something valuable to the table. Otherwise it is going to wither as time passes. Partnerships therefore need to bring a distinct set of competitive advantages together. The other party provides strength where you are weak. You give them strength where they have none. There have to be positive overlaps to realize and value has to be created mutually.

Proposition: Alliances need to be win-win. And they depend on people to make them work. Identify champions and advocates in the large company who can make the partnership work.

There are two types of alliances: There are window dressing alliances and there are real alliances. It is a lot easier to achieve the former than the latter, because alliances are very hard to manage. You will have to spend a substantial amount of time cultivating partnerships or you will not get the desired results: *It's like one city saying we have a*

sister city in another part of the world. Great, who gives a damn. (Zack Rinat, Netdynamics)

Strategic alliances and partnerships are always a double-edged sword. The problem is that all parties are trying to play to their own agenda. It requires a lot of instinctive feeling and careful navigation, to decide what you say "Yes" to and what you say "No" to. Especially as the smaller partner you have to be very careful not to get totally sucked into your larger partner's fairway. Therefore always do a due diligence on potential partners. In fact, you are looking for a non-conflicting, long-time strategic alignment. Make sure that both sides meet the expectations.

Proposition: Strategic alliances are a double-edged sword. Both sides try to play their own agenda. Check on potential partners and make sure that both sides meet the expectations.

22. The Game for Mindshare

Gaining visibility and mindshare is utterly important for a startup. Both are important to get the attention of potential customers, partners, investors and employees. The decisions of all these constituencies depend on what they hear about your products and your company in the press and from other influencers in the industry. The most important game is the game for the mindshare of the customer. In many industries customers rely on the press, analysts and other influencers when they make purchasing decision. Especially in industries that move very fast such as the high-tech industry, customers cannot keep up with all the things that happen and make their decisions based upon what the influencers say. Therefore you have to influence these people because they determine the mindshare your company will have with potential customers, partners, investors and even employees. These influencers are called the "influence engine". It is this "influence engine" that determines "what is hot, what works and what is safe". This "influence engine" can either spiral you up or spiral you down. This spiral effect makes it so powerful. A positive spiral effect can really leverage your venture up because you will get attention from potential customers, partners, investors as well as employees. Therefore you have to do everything to influence the "influence engine" so that it sets off an upwards spiral, a so-called "buzz". Therefore before you even launch your business you need to analyze who influences the decisions of your customers and start to influence these people. These are often people from the press or industry analysts. They also communicate and influence each other.

Proposition: Having the largest mindshare is as important as having a good product. Influence the "influence engine" and set off an upward spiral.

To influence these people and create this buzz, you will have to spend a substantial amount of time talking to magazines and doing a press tour. You will really have to talk to the press all the time, doing demos for journalists, visiting them, and leaking information about new customers and products. Get a PR-person early on who has a strong network in the industry and thus can get the attention of the important influencers. Focus on the key people and try to see them whenever you can. You go to them and you talk to them even before you are ready to announce the product, you get them involved and interested in it early on. You need to start building from day one a base of influencers who endorse your product and company. Besides that playing the press is the single most important tool in the game for mindshare, it does not really cost a lot, but has a huge leverage. You also want to be invited to the right conferences, and have the chance to get on stage. Once you are ready to announce the product, then you have to find the right form to announce it. Find an important industry conference, an event where the right people are, and debut the company or the product at that event. Get a very

visible launch so that people go out and tell other important people about it. Part of what you should do to get the press and analysts and the various communities interested, is not just talk about the specific features of your first release but to build it into a broader industry trend. You might try to build it on top of a bigger trend or even create a new category. You should create a vision that gets people excited so that they say "Wow, this is where things are going, this is the new direction." You want to build this excitement. Also get some big brand names as partners that everybody recognizes to endorse your product. Last but not least, you should try to get some first referencable customers. Real customer success makes a big difference and tends to drive the buzz tremendously. Basically what companies in Silicon Valley do is that they declare victory before they have victory. They go and proclaim that they are already the leader, that they have already the key accounts although they might have only some few beta sites and not shipped or even developed a working product. But in fact, how good your vision is a key component of what the press sees as the leader and what the customer buys. Of course, you have to deliver on your vision later on, but you have got time to do that. So when you keep saying over and over again that you are the market leader, a lot of people will start believing it and you will actually become the leader. Often this kind of mindshare and marketing can give you a lead even over a competitor who has a better product, because you will define the rules of the game, the rules how to compete, since you will be perceived as the leader. Thus the competitor will have to play by your rules, since you determine what the features need to be and what the customer expects. Sometimes it can even happen that competitors get scared when they see that there is already a perceived market leader. Thus often the question is not which company can assemble the best technology and product, but which company is able to build the largest mindshare among customers. To do that you have to start building mindshare from the very first day you start your business.

Proposition: Play the game for the mindshare of customers, partners, investors and employees. Try to become perceived as the market leader.

In the process you will have to be very careful to distinguish between your product and your vision. You want to distinguish what your first product is and what you are delivering and what your expectations are. You do want to get them excited about the vision but then give them pretty realistic expectations of what you are going to deliver and what is going to happen. Besides, you should not crank out press release after press release, none of them with anything substantial in it, because then the influencers will write negative articles and it will backfire on you. The buzz can also work in a negative direction. Once you have a bad image it will be very hard to attract customers, hire good people, find leading partners and even raise more capital.

Proposition: In many industries the vision you are selling is as important as the actual product. Get people excited about your vision so that they buy your product even if it will still take some time until your product matches the vision.

Part of the game for mindshare is to make yourself appear bigger than you are. A lot of the high-tech tools, but especially the internet helps you to appear bigger than you are. Less and less depends on how you appear in physical terms but how you look on the web and how you look electronically. You can leverage information technology a lot to appear bigger than you are. Actually you do not even need all the infrastructure a big company has behind the scenes to sign up customers, to do billing, take their credit card, give them customer service. You can do it with a few number of people and information technology. You can also leverage subcontractors by having people do work on a subcontracted basis where outsiders might assume that it was done in-house.

Proposition: Make yourself appear bigger than you are.

23. The Breakthrough

As an entrepreneur you will obviously want to know what should be considered as a breakthrough. When can you feel safe? The bad news is that you should never feel safe. You rather have to remain concerned every single day. The good news is that you will experience a number of events that are very promising. In fact it is very difficult to identify a single point of breakthrough along the way to a successful company.

Initial funding is a first milestone, because this is what enables you to set up a business, rent an office and build a prototype. Besides, it gives you an independent validation of your business idea. Also, you will be talking to customers and you might have the feeling that your idea is a good idea. But as long as you are just talking to customers, nothing is certain, because it is a whole different issue to pay money for something than it is to say "Yeah, that sounds like an interesting idea". Nevertheless positive customer feedback should be considered to be another important milestone, because then you know at least that you are on the right track. Once you have a prototype working, you might think that you have finally made it. But from the prototype to the actual product that people can use, it will often take you much longer than you thought. The defining moment for any company will be the first customer who really uses the product successfully. This first happy customer has to be considered a real breakthrough.

Getting a great partner can be an important breakthrough, too. But you should always be careful as long as results have not materialized yet. *We thought we have made it. We thought we were millionaires. We wanted to get rid of our consultants. But as it turned out a week later, the CEO was running into trouble with his board and had to back away from this project. (Eric Spitz, Trakus)*

Proposition: The real breakthrough will never come, but you need to be paranoid every day. However the first happy customer makes a big difference.

24. The First Customers

The first customers really make a difference. It is the ultimate test that people are willing to pay money for your product.

Early customers are like early employees. To win those customers you should try whatever it takes. Often people are uncomfortable buying from a startup because no one wants to buy a million dollar worth of equipment from a company he has never heard of. No one wants to be the first one. To the first customers you will be selling yourself as much as the product. The first customers are taking a risk buying the product from you. They are actually investing in the company. They take a risk with you and should therefore be considered as the most precious partners. They provide the first test of your product in the real world. *The very first customers have a very special place in my heart.* (Pamela Reeve, *Lightbridge*)

The very first customers are especially important because they are your customers of reference. They will provide you with referencability and set the foundation to get the momentum going. Because these customers will provide instant credibility to your solution, validate your idea and thus provide enormous leverage for your efforts to gain more customers. Then it will be very clear to the market where your product fits, what it does, and what category it fits into.

Proposition: The first customers provide you with the all-important references for your sales efforts. Nothing sells better than proven customer success.

Besides early customers can provide tremendous input during the development phase already. The goal should be to have a very close relationship between the development team and the user, so that you can meet their requirements. There is really nothing like building your product closely with some prospective customer. They are spending their time, their energy, and they are giving you feedback already for the prototype. Also, they are testing your product by integrating it into their infrastructure.

Proposition: There is nothing like building your product with a customer.

Before moving on to other customers you should really focus on these first key customers and make sure that you have really done it well. Then you will know that you have the right product for the right solution. After that, you can go out and get more customers.

If I say that there is life on Mars, 2% of the people will believe me right away. That is my family and friends and people who trust me and those people who came independently to the conclusion that there is a life on Mars. They believe it anyway. Then come the sceptics who will question your statement and so forth until you come to the last 5% who will never believe that there is life on Mars even if you present them a Marsian. But once you get the first 20% convinced, the rest is momentum. The first 20% of the market are the hardest. You have to figure out who are the first 2% and who are the first 20% and leave everybody else alone. Don't bother for 100% of the people but figure out the first 20% that you can tap on. What strategies, what partnerships will bring us to the first 20%, the early adopters, the leaders whom the others will follow. (Prakash Bhalariao, Ambit)

Proposition: Focus all your efforts to satisfy the first 20% of the market segment. The others will follow.

In addition, the first customers will have a significant influence on your valuation. If you can, you should bootstrap to the point where you get your first customers and then go and raise the money. Because at that point there is no question whether the dogs will eat the dog food. And with the dogs eating the dog food you will get a better valuation.

When you come out with a product, people need a handle, a place, a segment, a box, ultimately a category to put you in. Otherwise they will not even want to talk about your product, because they do not understand what it is. They have to compare you to something: "What is it like? How is it different from that other ...?" You have to make very sure that they put your product into the right category. Once people have put you into a certain category it will be very difficult to get out of that category again. This is a tremendous challenge when you ship your product for the first time. Often startup companies are building something new and it does not fit into an existing category. Then you will have to create and develop the market category that really defines you as a company. If you create a new category, you have to create in a way that it is immediately understandable and intuitive. If you succeed you will be identified with this category and others will have to follow you. Creating a new category will usually put you at a competitive advantage and establish you as the leader.

Proposition: Positioning is very important. You need to make sure that you are put into the right category or create a category yourself. Make it clear to the market what you do, what your category is, and that you are the leader in that category.

Since the first customers are strategically very important, you have to choose carefully who you should go after as your first customers. You should figure out early who are going to be the major influencers in your market segment and out of these you should go for the early adopters first, the visionary customers. You should get what is called "lighthouse accounts". Customer that stand out like a lighthouse, everybody sees them. If you can get these accounts and make them happy, the rest of the industry will follow. You should do whatever you can to get a good reference with them. You really treat them like kings and give them great service. Industries are often very small and everybody knows everybody else. Potential customers will call up your reference customers. You really want people to speak about you and by making your "lighthouse accounts" happy, you will have laid the foundation for future growth. *Being able to get into Intel and IBM as No.1 and 2, was a major breakthrough. We try to bring technology to the market with the leader which then triggers the rest of the market. (William Elder, Genus)*

Proposition: Get "lighthouse-accounts" as first customers. Among the industry leaders focus on the early adopters.

In order to win such a high-profile customer, depending on the market situation you should choose one of the following two strategies: One strategy is to go for a very high-profile first customer. Then you will have to put everything you have into it, knowing that if you fail, you probably ruined your chance to start again. The other approach is to take a medium or low-end customer, work out the bugs, and then go after the high-profile customers. The decision which of these strategies you should follow depends on where you think the market is in its development, how fast you have to attack it, how much time you have got left and how big your window of opportunity is. If the window is small you should definitely go to the high-profile customer directly. Probably somebody else is right behind you and has also more resources than you have. If the window is large you can try to work out the bugs with a medium-end customer and then go for a high-profile customer.

Proposition: When the window of opportunity is large first go to a medium-end customer. If the window of opportunity is small go to the high-profile customer directly.

25. The Competition

The problem with a huge market opportunity is that usually everybody else sees it. The trick is to identify the emergence of a new market. If it is already emerged it is often too late. The really smart companies not only identify, but lead it. They will lead it, because they are the first in there and nobody has anything even close to the technology they have. As an entrepreneur you are laying a bet. You are betting that you have figured something out at a level of complexity that other people have not figured out. You are also betting that you have the set of skills that somebody else at another company does not have. And you bet that you can assemble a team around you that brings skills in that other people just do not have.

Nonetheless, you will have to face competition from large corporations and small companies and you have to worry about both. The big armies have more resources. The small competitors will fight with the same weapons as you do. Both are dangerous. Before you even start a company you have to think who is going to be your friends, your allies and your competitors. You will have to find a territory considerable enough that you can build a beachhead, grow that beachhead and fortify it before competition moves in. As an entrepreneur you should never underestimate your competitors. But you also do not want to make the mistake of overestimating them. Otherwise you might not pursue a promising opportunity. You should only give them credit for what they have done, but not necessarily for what they could do.

Proposition: No matter whether you are first or not, there will always be competitors. Give your competition credit for what they have done, but not for what they could do. You need to layout the battle map before you start.

You should not play somebody else's game. You will have to define your own game and build the team around your game plan. Then the rest of the world will have to respond to you and your team's game plan and you will not be limited by the rules and the boundaries of an existing game.

When you are the market leader people inside the company should be humble about that. *Microsoft* and other successful companies do not take their success for granted, they are working always very hard. They think that anytime someone can come along and beat them, they do not rest. They are permanently paranoid. Therefore if you are successful you should not sit back and start to enjoy it, but you have to keep going, you have to

keep working and innovating, because if you do not, someone else will. There will always be another laser-focused startup that will try to beat you, so never be complacent.

Proposition: Be paranoid, stay paranoid.

After the first round has been won by the flyweights, round two is about the heavyweights joining the match. An opportunity has been proven and leadership has been established in round one, but then the big guys become attracted to the opportunity. The competitive advantage is rarely technology. Anyone who really wants to, can catch up. If *Microsoft* or *IBM* want to get where you are, they can get there. You really need to differentiate. And the differentiation against your large competitors comes from the focus of your company. The unique advantage of small companies has always been that they are very focused. A company is actually a big combined vector of lots of small vectors of each individual and each department. A small company can get everyone focused in the same vector, everybody pointing in the same direction. The vectors will add up, if they point in same directions, if not they cancel each other. In big companies those vectors tend to point at very different directions and in the end this big vector becomes much smaller, less powerful. You should out-focus your competition.

Proposition: Differentiate your company by out-focussing your competition.

Besides focus, speed is the most important advantage of a small company. Big companies are very reluctant to change. They are built around a successful economic model which is very hard to change. That allows a small company to establish itself in a market place. A little company can out-navigate a big company anytime. Even successful large companies such as *Intel* take months to react. One day however even the large battleships will have changed course, which requires a very aggressive approach right from the start. Out of necessity decisions therefore have to be made with lightning speed. That is how the small company maintains its competitive edge. If you wait until you have all the data, somebody else will already have beaten you.

Proposition: Out-navigate your large competitors. Focus and speed are the most important advantages of a small company.

A sustainable competitive advantage will not be determined by how you enter the market, but how you prevent others from following you. The idea that initially only you might have had will not be yours very long. As soon as somebody sees it and thinks it is a good idea he might decide to do that too, maybe even better. The competition creates a race

and you have to stay ahead which makes quick execution so important. But to stay ahead you should not only try to run faster than all others, but you should also try to hinder your competition from following you by raising barriers to entry through partnerships, patents, and mindshare for instance. In the early stage of the company already you should spend some time and resources on raising barriers to entry. The seeds you plant now, will hinder the competition to come after you in the future.

Proposition: Already in the early stage think about what barriers to entry you can create to hinder your competition from following you.

There is also benefit to having competition. Competition will help to create a market space for a new product by educating the customer base. Besides, it keeps you paranoid. You should really use your competitors as a motivation and also try to learn from them.

Proposition: Competitors can help to develop the market.

26. The Growth Management

The challenge of rapid growth is very unique. It's like driving a race car on very, very slippery terrain on instruments without being able to look out of the window. (Frank Quattrone, DMG Technology Group)

You will be getting to a point where the first products are hitting the market and the customers are creating a pull. Things are not linear in the way they get accepted. Things are often very slow and then very fast. This phenomenon is called the "hockey-stick curve". The product is now in the quick adoption phase, and customers are buying the product at a tremendous rate so that the company has to scale the entire organization. To manage this hyper-growth you have to prepare beforehand. The company needs to be prepared for changing gears. When the "tornado hits", it is too late. Before that you really have to design the company in a way that its people, management, processes, communication and infrastructure could run already a much larger company and thus are able to cope with the impacts of growth and can take full advantage of the momentum when growth comes.

Proposition: Demand is often a hockey-stick curve. Prepare early on for the moment that the tornado hits.

26.1 People

The biggest problem when growth picks up is to find qualified people fast enough so that the momentum is not lost. Thus rapid growth will put pressure on the entrepreneur to be less selective in whom you hire. But however fast you grow and how hard it is you absolutely must keep hiring the best people. That can be difficult because as you grow faster and faster, your ability to control every hire is lost. Therefore by the time growth comes you must have recruited the right people and set the right culture so that the quality of the recruiting is maintained without you. The culture's standards to what a good employee is must have been translated to every level of the company. If you start to compromise on the people you hire, you will hire B players which will hire C players and pretty soon you end up "dumbing down the organization". Therefore people will in most cases become the limiting factor for growth.

Proposition: Even when you are growing fast, continue to hire only the best people or you will end up "dumming down the organization". Be aware that people can become the most important growth barrier.

26.2 Processes

At a certain point the asset of speed becomes a liability and the need to build systems to scale operations becomes obvious. The lack of failure and processes can become the bottleneck for a fast-growing company: Product quality declines, products get delayed, the bills get not sent out, etc. Therefore putting the right infrastructure in place at the right time is critical. You need structure that helps people, not hinders them. That is a very difficult challenge, because if you put in structure and processes too soon it will hinder creativity and growth, but if you wait too long you will have all kinds of growth problems. Figuring out when to put what structure in place is therefore a real challenge. You always try to balance between moving fast, trying to get the product out the door, and ensuring your backward system, having adequate communication systems, having adequate cost management systems, having proper documentation, etc. Thus every startup is always about making choices: when I am doing engineering, do I need an actual process that I follow, or do I just get the guy to work two straight days and nights to get the product out of the door. And you almost always decide to get the product out the door. And at that time it might be the right choice to make, but at some point though you will have reached a certain size where you realize that you have to put processes in place. Often the dangers lie in pushing that decision out as long as you can. And the longer you wait the tougher it gets. Besides, people like the ease and informality of a startup and they tend to resist any kind of more formal structure.

However, you gradually have to move the company from being a job shop to being an assembly line. You need to have very consistent processes in place, that really take the company to where it needs to be and make it more predictable. Processes and systems have a lot to do with producing more predictability. To prepare for growth you should start working on the predictability of the business early. Therefore you need to start building processes in the early stage of the company. But you do not want the company to burden with bureaucracy. You want some simple processes that channel the thinking and energy of the organization and produce more predictability of outcome. Process must facilitate. Processes are the basis which allows you to channel the energy of the organization more effectively. Processes allow the company to get bigger in a graceful, yet aggressive fashion.

Proposition: Processes allow the company to get bigger in a graceful, yet aggressive fashion. Early on put in some simple processes. Processes need to facilitate.

The decision when to put which processes in place depends on the stage the company is in. You have to understand what stage the company is in, and what the critical function at that stage is. If the first stage is the development of the product., you should focus your process first at development. Then you focus on marketing and finance.

Proposition: Whatever the critical functions are at every stage of the company development you need to put in processes first.

When developing these processes you must make sure that they are scalable, that means that they are designed for growth. Thus you must have processes in place which are similar to those of a larger company. Then the processes will support growth.

When you put in place processes you have to make sure that you bring people on board and that people do not get alienated. *This is a very difficult stage of growth, because you have people in the company who already were with the company when there were just the first 30 or 40 people and when there were 20 people involved in which chairs we would buy. Simple decisions like that. And those people are no longer involved in not only which chairs we should buy but which direction the company should be going. That can create serious withdrawal symptoms in people's minds. Am I not as much part of the company as I used to be? And it is not that they are not as much part of the company, it is not that their opinions do not count. But now their opinions get counted by going to the right channels, first to the Directors and Vice Presidents and then to the President. You have to make sure that when those processes and communication channels get established people don't feel that they are removed from the company. People have to understand that they are still involved in the decision-making structure of the company. Those are very difficult times for a startup company. (Nimish Shah, Sentient Networks)*

26.3 Management

If you look at companies you realize that they get raised like children. There are things to do which are appropriate for an infant, that are not appropriate for a toddler and that are not appropriate for an adolescent. And management has to understand if this is an infant company, a toddler company or an adolescent company. (John Hamm, Whistle Communications)

A lot of entrepreneurs tend to overestimate their abilities. They constrain the growth of the company by trying to be the CEO, the Chief Technology Officer, the Vice President of Sales or the Vice President of Marketing. Startups however experience significant changes in the challenges they face at each stage of their development, so that the management skills required change too between the startup-phase and the maturing phase.

Fast growth is really difficult to manage. In numbers: We have 750 employees right now, growing at 8% a month, that means 60 new employees next month, that means we hire 3 a day, offices, desks, phones, terminals, everything! Every month. And you got to accommodate all that. It is very difficult to get ahead of the curve when you have that kind of growth. (Bill Porter, Etrade)

When the company is growing at such a fast rate of growth, you cannot settle down on your ordinary pattern. Normal companies that are growing 10 or 20% a year, can keep their normal pattern of operations. But for a company which is doubling or more every year, last year's pattern is clearly not this year's pattern, and last year's management practice is not this year's management practice. If you are a manager, twelve months from now you are a manager of twice what you had before. And the next year you have to manage twice of what you had before. You have to mature really fast as a manager.

To be able to manage hyper-growth you therefore need an experienced CEO who knows how to scale a company including its organization, its processes, its infrastructure and its people. Somebody who has gone through that and has the experience of running a large company. Besides, in the organization you need other key people who are able to scale operation. You therefore need to hire people who have done it before. People who used to run much larger departments or projects. In some sense "overqualified people". Someone who is now managing four people should have been managing fifty before. You need to recruit these people early enough in a startup so that once growth picks up, the company can scale.

At every stage of organizational growth I was three to six months ahead in terms of thinking because I had worked in big companies before and had managed big organizations. So it was very familiar ground for me in terms of organizational building. (Tom Henn, Cloudscape)

Proposition: Hire early experienced management and other key people who are used to running much larger operations so that they can scale the company when growth comes. Higher overqualified people.

26.4 Communication

If you are a ten-person-startup almost everything happens informally. There are no official meetings, you talk about something in the hallway, and everybody goes and does it. There is no substitute for people talking to each other, but when the company grows you will need more explicit channels and processes of communication and be much more explicit about how things are going to be communicated. You need a different structure for communication. You cannot rely anymore on your people screaming across the hallway and say "This is most important. Make sure that it gets done." You really have to formalize the communication process in order to maintain information flow.

In addition, in a fast growing company, a company that doubles every year, at any point of time more than half of the people in the company have worked there for less than six or nine months. The biggest difficulty in that is trying to provide the communication so that everyone stays synchronized with what the company is trying to accomplish. You want to keep everybody focused on the same goal and therefore you have to keep the communication going. You will have to use email, lunch talks, all-hands meetings, and information systems that share knowledge inside the company.

Proposition: In periods of hyper growth communication will be a challenge. Establish early formal communication channels so that free information flow is ensured.

In the context of growth management we would like to quote Ken Morse, Professor at the MIT Sloan School of Management and Managing Director of the MIT Entrepreneurship Center, who talks about his personal experience in a critical phase of growth which he calls the "30-Million-Dollar Wall":

I have been through the 30-Million-Dollar Wall. Everything is different when you get to 30 million and it is horrible. Imagine you have a team, everybody knows each other, you have shared common values. You get to 30 million dollars in revenue and suddenly you have people in the company who don't share all of those original core values that the team had. They are there because it's a job. You have another layer of management who does contracts by the book rather than by the guts. And the book isn't as smart as the gut of the owners. The systems break down. You can run a whole company on an Excel spread-sheet until you get to 30 million. Then you have to go out and buy something, you got an accounting firm and so on. It is a nightmare. It is like running in your sleep. That is the way you feel when you hit the 30-Million-Dollar Wall. You can't run fast anymore. You go through this transition and you learn how to whip this horse and get it

moving again. And then you get to a 100 million. The problem with a 100 million is - it is boring. Once you get to a 100 million, I am out of there. Too many people, too much crap. (Ken Morse, Massachusetts Institute of Technology)

IV. The Entrepreneur

27. The Motivation

Starting a company is the ultimate test of manhood. (Vinod Dham, Silicon Spice)

There are different aspects of entrepreneurship which motivate entrepreneurs. However, there are some common elements which we came across.

Entrepreneurs are fascinated by the desire to change the world. It is very exhilarating because as an entrepreneur you can really change the world. You change the way people play, the way to do computing, the way a doll looks ...you really change the world. You as a person can go out and change the world a little bit, making people's lives better. *They ultimately want to change the way the world does something. Whatever something is. In our case, it is the way people experience sports. In Netscape's case it is the way people experience the internet. (Alan Ramadan, Quokka Sports)*

Entrepreneurs have a desire for freedom. Even though starting a business can mean that you might end up with absolutely nothing, it gives you a tremendous feeling of freedom to do what you want. You are going to succeed or fail largely based on your own efforts. You can influence the outcome, you can make a difference based on your own decisions and without your efforts getting diluted.

Entrepreneurs enjoy building companies. Most of the entrepreneurs could not think of anything they would rather do. The overall sense has got to be one of tremendous enjoyment of what you are doing. *Imagine you could do all day, every day, what you really enjoyed. Wouldn't that be great? That's what I'm doing! (Michael Skok, Alphablox)*

You should not do it for the money. If you do it the right way, the money will come. Also, you should learn to be judicious to understand your own motivation. *The mistake was, that because I thought at some level maybe Lotus was kind of an accident, I decided I had to prove something by starting another company. And that's a very bad motivation. If you do it you have to do it because you love it and you really want to do it, you cannot do it to prove something. (Mitch Kapor, Kapor Enterprises)*

28. The Doubts

Most of the entrepreneurs will have doubts some day. Questions like „Am I too far ahead of the market, should I start the company a year later or will I run through cash too fast?“ But those doubts are no fundamental doubts concerning the idea, but rather concern the way to approach it. Everybody has got demons chasing him, but an entrepreneur should absolutely never doubt his idea. You cannot afford those doubts. You have to believe in your idea. There is no point in spending a 100 hours a week, if you do not really believe in your idea. To overcome your doubts you will need a tremendous faith that you will succeed.

Success starts in your mind. If you are in a jungle and you are convinced that you are going to be eaten up, then you will be eaten up sooner than later. But if you are in the jungle and are aware of all the dangers and all the animals but you know that you have enough weapons, team and mindset to win, then you win. If you don't believe that you will not survive the daily rollercoaster ride of a startup. (Ranjan Sinah, Magnifi)

You will have to deal with the doubts you have by yourself. If you believe this is going to be small, the people you work with will start to think that it actually is going to be small. And they will leave. As an entrepreneur you should keep your doubts for yourself. You should not talk to anybody in the company, neither employees nor the board, because they will only get very worried. People will tolerate bad news if you have a plan. But you cannot come and present bad news without a plan. They would get very nervous, because who else is there?

Proposition: You must not have doubts concerning your idea. Keep your doubts for yourself. If you have bad news, present a plan to the people.

29. The Sacrifices

The best thing is not knowing how hard it really is because you can't rationally deal with that much fear. (Bill Giudice, Maker Communications)

Entrepreneurship is no lifestyle-business. There are tremendous rewards such as changing the world and creating wealth, but there is a price. Nevertheless, entrepreneurship should not be considered to be a sacrifice. *It would rather be a sacrifice for me to waste my time in a big corporation. (Michael Allen, Vice PresidentNet)*

Leaving a well paid job for a startup, you will probably have to accept substantial pay-cuts in the beginning. And then you should not underestimate the difference between a 45- and a 70-hour-week. A startup requires an incredible workload. You will basically work seven days a week, 11-14 hours a day. 70- to 90-hour-weeks obviously mean that you will lose some of your social life. It will cut into your family life seriously for a couple of years. For those who are not afraid to take these risks and to work these hours the rewards are astronomical.

You must however be very careful, that it does not burn you out. Being an entrepreneur is incredibly hard work and often you will hardly be able to let go. It will not be easy to find sleep at night and the responsibility makes it almost impossible to feel relaxed at any time. You will feel so attached to what you are trying to build, that it is exhausting: *I am burning out. I have no personal life, I have no friends in the area, I know nobody outside of the company. I go home at night and watch TV - when I go home! That is unacceptable. I am reaching my limit of antisocial behavior. I am not willing to trade up being miserable to being successful. I hope to relax a little bit, down to working reasonable hours. 60- ,70-hour-weeks, you can sustain that. It is very hard to sustain 90-hour-weeks. (Ian Eslick, Silicon Spice)*

Startups are incredibly demanding and you will be working 70 or 90 hours and more. But it does not have to be 100 hours every week. You should always try to have some fun, and to have some life too. At times, take some time off. Do not get completely consumed by the business. It is not necessary and in the long run it is not healthy. If you do not take time off, the chances of burning out are very high.

Proposition: Be prepared to face substantial pay cuts, long working hours and a limited family life. But do not let it burn you out.

30. The Qualities of an Entrepreneur

You have to create like a god, command like a king and work like a slave. (Ken Morse, Massachusetts Institute of Technology)

The entrepreneur is breaking out of the norm, leaps around standard expectations, he is different by definition.

30.1 Visionary

An entrepreneur does not have to be blessed with mystical or super-human visionary qualities, but you have to have a clear vision where the world is going and how you can make the world a lot better. Being an entrepreneur is not being a follower. Most of the world works on a herd mentality, but by the time you recognize a trend is hot, it is probably too late to be in that trend. In fact, there has to be somebody in the company who has a vision on how to make the world a lot better. A vision how things are going to change, how costs will lower, or how performance will rise. *The best way to predict the future is to invent it. (unknown)*

Proposition: Being an entrepreneur is not being a follower.

The entrepreneurs are often futurists. They are extremely interested in trends and emerging technologies, and how things might be. They sometimes read science fiction, future novels, books where people make projections what could happen. They are very interested in what could be. You should ask yourself what the big problems are that humans face on earth. An entrepreneur has an inquiring mind, he is always questioning what is happening around him, from a business as well as from a technical point of view. You need a curiosity in the things that happen around you. You should be asking yourself why certain things are done, does it make sense or is there another way of doing it? Entrepreneurs are inherently curious.

We came across an example of this visionary approach when our interview technique was spontaneously analyzed:

Look at how you guys are doing this interview. It is, you know, barbaric. You have book and pens and a tape recorder which means you have to transcribe this by hand or you have somebody else do it. Your handwriting is something which you later have to read, maybe retype. You only capture some of the things that I say. The tape recorder is operating in a relatively noisy environment, so not all of the things are captured. There are huge delays and you have to keep the tapes, the physical objects. This is all 30-year-old technology in the case of the tape recorder, and 200-, 300-year-old technology in the case of book and pen. Well, come on, what this should be is a digital noise-cancellation microphone, plugged by wireless connection into the internet, sent directly to somebody who is either a person who is typing, in India probably, because it is cheap, who sends you the live text streams so that it is on a computer screen right in front of you and you can look at it, refer back to it, and if you need to annotate it you do so with a digital pen or with a keyboard. I mean this is how it should be done, and this is an opportunity, I mean, it is not just us having this problem, you guys, poor students who fly all over the world to interview people, in fact, these should be every day technologies and yet we are stuck with this old stuff. So you just, this is my approach, look around what are the problems and if somebody has a solution to this problem I am interested. (Joost Bensen, Massachusetts Institute of Technology)

You should look at problems and figure out which problems are more important than others. You should always rank problems, thinking: this problem is a hundred million dollar problem, this is a billion dollar problem, thousands of people have this problem, millions of people have this problem, billions of people have this problem. The entrepreneur will try to make the connection between potential solution and problem. The ability to make those connections is what makes a visionary entrepreneur.

Proposition: Be curious. Figure out which problems are really important and try to connect these problems to potential solutions.

30.2 Confidence

Being a successful entrepreneur requires a strange mixture of arrogance, confidence and paranoia. That is one of the reasons why Bill Gates has been so successful. He is absolutely convinced that he is right all the time, but he is never so convinced that he is right that he stops being paranoid.

You have to look into the mirror: Do you believe you can do it? As an entrepreneur you have to be confident about the rightness of your instincts, you have to be ready to bet

your and other people's wealth on yourself and your idea. You have to have the guts to make a bet. You are not a gambler but you should be willing to bet all of your wealth on yourself, and be willing to ask lots of people to bet on it also. You are confident because you know that you can influence the outcome. You will make the best decisions you can, and then focus on making them work. If you are wrong, then you will find out and fix it.

Proposition: Entrepreneurship is a mixture of arrogance, confidence and paranoia. You can define the outcome of what happens with much greater certainty than people believe. Be absolutely convinced that you are right all the time, but never be so convinced that you are right that you stop being paranoid.

30.3 Team Spirit

Single-man-powered businesses are not of today anymore. Winning teams are the ones which win rather than a powerhouse individual. An entrepreneur has to be able to work with others and get the best out of other people.

He has to have the team building skills. In this world everybody is competing for the same talent. And everybody can use stock options and monetary things. But can you create a vision, a personality and culture that can endure pain and suffering and frustration and build enduring value? Jeff Bezos is the kind of guy the first time you meet him and you hear him talk, you say "Wow, I really want that guy to succeed, he is a great guy. He has such great personality. He is not talking down to me. He is talking about things that are complicated, but he is not thinking that I am an idiot or he is not assuming that I know too much. He is really making a connection." I've seen that several times. And it's amazing when you see that. That's a sign for me, that's one of those intuitive things that makes me want to reach out and spend some time with that company. (Frank Quattrone, DMG Technology Group)

Building a team requires self-knowledge: to know what you are good at and what you are not good at, what you like to do and what you do not like to do. You will have to bring in, and hire people beyond you and your skills, to do what you cannot do, and work with people who complement you.

Proposition: You cannot make it alone. You have to be very clear about your personal capabilities. Try to assemble a team.

30.4 Risk attitude

It is a personal decision how much risk you can afford and how much risk you can take. *An example from Formula-One racing: You are familiar with Formula-One racing. Phil Hill, 1962 grand prix world champion, father of Damon Hill, I have known him for a fair amount of time. One of the things he will tell you about driving faster than anybody else is: When you look at those top 50 drivers, they are all basically the same. In fact there are probably a lot more people that can drive fast. That's not it. The thing is when you get to the edge where you believe that your abilities lie, you put the pedal further down. So when you see the accident up in front of you that is when you really put the pedal down because you know everybody else backs off. That is the last amount of risk that no one else wants to take. That is the difference between somebody that wins and somebody that doesn't. That's an entrepreneur. (Kevin Rivette, Smartpatents)*

Starting a company, even if it does not succeed is a badge of courage. There are no lost opportunities, there are only failed opportunities. Even if your startup falls apart, you have actually gained because you were the kind of person who was willing to try.

30.5 No Fear of Failure

Even when facing a once-in-a-lifetime opportunity a lot of people do not risk the step into an entrepreneurial adventure. You should have a healthy fear of failure, but you should not think that failure is the end of everything. Even venture capital firms which carefully select among the most promising ventures at all, have an average hit rate of two out of ten.

The key to entrepreneurship is not so much about success but it is about understanding where and how you failed. You have to be learning from your failures to actually achieve success. Learn from your failure and use it to your advantage. Do not be afraid to take the plunge. The experience you make will never be lost. Next time you will do better.

Proposition: In your entrepreneurial life, it is highly probable that you will have a failure and it will probably be a painful one. But you have to have confidence in your own ability and if you get knocked down, you have to be willing to get back up and try it again.

30.6 Ability to Learn

Building a company is a wild ride. You might hit some rock-bottom lows but you also get the experience of some tremendous highs. That is a really gratifying tradeoff. Prepare yourself also emotionally that you might also not make it. Startups are never a straight line up. There are always rocky periods and whenever things are negative, there is something underneath that is very positive that you could get out of it. People often miss that things which do not go right for them sometimes have the best solution and hold the clue for them to be successful. As long as you learn, there is no such thing as failure. When things do not go your way, turn around and make it become your strength rather than your weakness. This turns out to be one of the key things about entrepreneurship: transforming failures and weaknesses into strengths and successes.

In our first meeting with the Federal Drug Agency (FDA) 7 years ago the FDA said "I don't believe that you can do this." One view may be "Oh, there is no way we are going to be able to do it, let's wrap it up." The other view is "Let's figure out how we can work with the FDA to better understand how we can meet their needs and what they consider to be appropriate." It took 5 years, took a lot of work, and under most circumstances people would have walked away from it. What we did is we developed a relationship with the FDA, developed a dialog and worked with the FDA. And now we are the first and only company out there and we set the standard of what is required to get FDA clearance. (Nassib Chamoun, Aspect Medical Systems)

Proposition : Transform weaknesses into strengths. Failing is a necessary learning experience. You can learn more from failures than from successes.

30.7 Entrepreneurship is very personal

Entrepreneurship is very personal. Everything that happens in the business remains very personal. If the customer is having a problem, it is personal, it is your fault. If an employee is quitting you will feel like it is your fault. That means you are thinking about it all the time. There is almost no time when you will not be thinking about the company. And when things are not going well, it is hard to sleep.

The entrepreneur just does not want to fail, which pushes up the level of energy and endurance above what he could normally do. An entrepreneur is totally dedicated and there is very little room for anything outside the job. *It is more than a job. It is something else that goes way beyond. It is really a passion, a desire. You have this massive*

adrenaline push all the time. We are outlaws. We like to venture, we like to challenge.
(Dale Fuller, WhoWhere?)

30.8 Sense of Reality

A lot of entrepreneurs are so convinced that they are right or that it will work, that they become unrealistic. And it's like they run off a cliff. Because they do not see that there is a cliff coming. Those are avoidable tragedies. A lot companies basically just commit suicide. (Mitch Kapor, Kapor Enterprises)

Chickens come home to roost, therefore you should never ignore problems. Problems do not go away. They always get worse and worse and worse. It is like having an untreated disease. You try to ignore it and all of a sudden you find yourself in the hospital having an operation. And you missed the time, the opportunity to correct the problem when it was smaller and more manageable. Entrepreneurs have a tendency to avoid that what is unpleasant. You do not want to know about this, you hope it will go away. It just does not happen. It is a real skill to be realistic. One of the many reasons *Microsoft* has succeeded so well, is that Bill Gates has always been incredibly realistic and never underestimated competitive threats. Do not walk away from difficulties, try to solve them somehow. Work with difficulties, the authorities, things that can slow you down. Develop a relationship, try to better understand them, and once a relationship is developed they will become your strength.

Proposition: Be incredibly realistic. Deal with problems since they do not just go away.

30.9 Persistence

As an entrepreneur, you will need a willingness to continue working on something in the face of great doubt, or lack of support, or lack of initial acceptance. There are a lot of bumps in the road, a lot of potholes you have to go through. But just hang on. Entrepreneurship is nothing but long, hard efforts over an extended period of time. You have to look at it as a marathon, nothing is ever fast and easy. You will need good pace and good endurance combined with an intense focus on your goals. Usually it is a long road and it takes a long time to build a business, often longer than you estimated. You probably cannot do it in less than five years, and many people do not envision that it might even take them ten years.

Businesses are like people, they take a long time to grow up. One day they get a life of their own. But prior to getting to that point, the business is just a child and if you let it go off on its own, it is just going to get itself in trouble. Although it will appear very tempting to go and pursue new opportunities, you have to hang on. You have to have clarity and focus, it is not possible to jump around. Once you are into it, there is only one good outcome and that is to finish it with some style. Then you can move on.

Proposition: It is not a sprint it is more like a marathon. You need perseverance, a willingness to stick with your project, and you should not pursue other opportunities, regardless of how difficult things get.

30.10 Commitment

You better really, really, really want to do it. Not just be an entrepreneur, but to solve a real world problem. You got to have passion about the problem you are solving. (Ken Morse, Massachusetts Institute of Technology)

You have to make the commitment in your life that you are only going to pursue professionally, what you have a passion for. Determine what you like. And then find a way to build on your passions. And if you find yourself part way down the track and it really is not turning you on and really is not fulfilling your life, change course. Sit back and rethink and try something different. The most important thing is aligning your passion with your professional life. If you are doing something that you do not enjoy you will never do well at it. Do not be afraid to experiment until you find out what really both turns you on and you are good at. And then get real good at it.

The key ingredient in a startup is passion and enthusiasm. That completely overwhelms the incredible physical demand that is placed on the founding team. And if you do not have stamina mentally and physically, you better do not get into a raw startup.

Proposition: You have to enjoy what you are doing. Explore, explore, explore. Find out what areas really turn you on. Maybe you do not want to be an Entrepreneur.

30.11 Experience

Everybody who wants to be an entrepreneur should get really good at what he intends to venture in. The typical entrepreneur therefore is not a kid in his twenties, who just dropped out of school, but often an older, experienced executive, who had the chance to gain experience, industry knowledge and ideas in other companies before he started his own business. The first time around it feels like a dramatic rollercoaster ride. When it is going up, it feels like it is going up all the time and there is nothing that can possibly stop it. If it goes down, it feels like it is going straight to hell and there is nothing that can stop it. It never ends up that way, it never continues to go up forever and it is never as low as it seems when it starts to turn down. Every entrepreneur goes through these cycles. The first time this cycle takes a toll on oneself personally. The second time around, having had experience with the cycle and been through it, you will be more mellow when it is going up and you will be much more confident when it is going down.

I grew up in the manufacturing and engineering ranks, I moved into the marketing ranks, and moved into general management. I touched a lot of different bases. (James McCoy, Terastor). As an entrepreneur you should never stop broadening yourself and touch a lot of bases during your education and professional experience. You should get a much broader education than you think you might want and you should definitely try to get some experience in the real world during your education. Working part-time while you study quadruples the value of the education.

Proposition: Touch a lot of bases during your education and professional experience. When you are more experienced, it is easier to take the rollercoaster ride.

30.12 Salesmanship

An entrepreneur needs to be a salesman. The essence of being an entrepreneur is gathering resources. Gathering resources requires selling. You have to know how to approach people and how to persuade them. That means going to investors and inciting them about your concept, that means going to key strategic partners, and persuade them to do business with you when you are nobody. You have to be able to approach people and to persuade them to come and work with you, you have to be able to excite them with your opportunity and vision. Being an entrepreneur means selling all the time. You even need to oversell, to exaggerate, especially early on. You should not be deceptive, but you need to be able to tell people that things are going great. *One of the investors*

paraded me for being so optimistic: "You are so damn optimistic. That's what got us in this trouble." "Yes, that's right. I wouldn't be here, if I wasn't." (Eric Spitz, Trakus)

Proposition: Entrepreneurship is a big selling job. You are selling all day long. You are selling to investors, you are selling to customers, you are selling to your employees.

30.13 Standing of an Entrepreneur

In America, society welcomes and embraces entrepreneurship. Leaving a good job in order to become an entrepreneur is highly respected. *Wow! People thought I was really cool, taking a risk! Being a successful entrepreneur accords a person much more social standing than being a successful manager of a big corporation. (Jeff Beir, Instinctive)*

When you do hit something successful as an entrepreneur, there is a lot of recognition. Due to the fact that you went out and took the chance, got it done, people do not even begrudge you for making lots of money. That is part of the entrepreneurial credo. In Silicon Valley the environment actually worships entrepreneurs. *Out here as an entrepreneur you are a rock star. (Andy Ludwick)*

31. Summary

The foundation for a good business idea is a large opportunity which can be based on a paradigm shift, a new product or a me-too product. These kinds of opportunities occur in markets that change, are badly understood, are fast growing or have inflexible incumbent players. The process of opportunity recognition can follow an intuitive or analytical approach. The idea needs to be researched and the most important part of the homework is to define need, customers, and timing. The strategy for building the business depends on the time window of the opportunity which can lead to a fast-growth strategy. Also a team of founders has to be assembled in a way that every founder is absolutely required. The founder is distinct from the company so that he will do everything to make the company more successful including sharing ownership with employees and investors and hiring experienced management to run the company. The ideal startup attacks a large market at the right time with a brilliant team.

In the building stage of a startup important decisions have to be made concerning location, advisors, support players and intellectual property. Then funding becomes the most important aspect. The entrepreneur has to choose between bootstrapping the business or raising outside capital from angel investors, venture capitalists or corporate investors. The exit can take place through an IPO or an acquisition. The most important success factor for building a venture however is its culture because it determines which people get hired and how people behave. A successful culture is an egoless meritocracy blue-jeans culture. The leader's most important role is to sell the vision to employees, investors, partners and customers. Since the window of opportunity may be small, early on the entrepreneur has to bring in experienced management. Besides flexibility, focus, and execution become key issues.

The next stage is growth. Partnerships can leverage the business through providing distribution access and credibility. The venture will reach the breakthrough when the first customers pay for the product. Before however the entrepreneur needs to gain the mindshare of the customers. Speed and focus are the most important advantages of a startup in the competition with large corporations. To take advantage when growth finally picks up, people, processes, and management have to be prepared beforehand.

Entrepreneurs are motivated by different aspects of entrepreneurship but there are some common elements. The way to a successful venture will bring along some doubts and sacrifices for the entrepreneur in particular a tremendous work-load and some loss of social life. There are many qualities of a successful entrepreneur, the most important of which are vision, no fear of failure, persistence and salesmanship.

32. Appendix

The "Playbook" of Ariba Technologies

I. Vision:

The vision of Ariba is to build a great sustaining organization into the 21st century. A role model is Hewlett Packard: They have been around for a long time, they have great technology, they are global and well respected throughout the world, they have a great culture. Anybody you meet is a person of high integrity. That is a good role model.

II. Mission:

Our mission is to be the leader in enterprise-software for this emerging market. There is no second place. We strive for leadership in five areas: vision, product, customers, partners and the team.

III. Values of the Company:

1. **Respect.** We are people from everywhere, very diverse. No matter where we come from, no matter what we do, we respect each other. That respect which goes back and forth is very important.
2. **Integrity.** Integrity in everything you do. Integrity as an individual but also integrity as a company. That has everything to do from how we treat employees to how we manage your books. We are very aggressive when it comes to marketing and product development, we come right up to the edge. But in terms of integrity we do not even go up the edge. One thing they can never take away from us is our integrity.
3. **High Ambition.** We set big goals and we never know if we can make it, but if we shoot for the moon and we end up half way there, that is still pretty far away.
4. **Courage.** Whether we are going for a new market, building a prototype or tackle a customer, it is all about risk-taking.

IV Team Rules:

1. Direct, honest and open communication, all the time, in every interaction. Whether it is the good, the bad or the ugly, we are dealing with the truth. Smart people like to be dealt that way.
2. No idea is a bad idea. You can say anything, anytime. Even a crazy idea may trigger a great idea in somebody's brain.
3. Always raise the standard. As we raise the standard some people will not be able to keep up with that. We either help them, or we move them into a new role, or we let them go.
4. We are team first and functional specialists second.
5. Hire the best people, especially when they are better than you. Action speaks louder than words.

V Long-term Goals:

Those long-term goals are with the company forever:

1. Grow profitably and predictably.
2. Focus on the customer's success. We measure our success by our customers' success and we quantify that.
3. Excellence and balance in all functional areas.
4. TVF: Teamwork, values, fun. We are not performing brain surgery here. If we make a mistake, nobody dies. It is a fun-place.

VI. Strategy:

1. Out-focus the competition.
2. Out-think the competition. Partner with the leaders. Anybody who follows has to go with the second or third.
3. Out-execute the competition. Speed of execution is critical, no paralysis by analysis.

VII. Short-term Objectives:

Short-term objectives are set on a quarterly basis.

VIII. Execution

America's Most Successful Startups

The economic impact of high-growth startups is steadily increasing. Against this background knowledge regarding new venture creation is one of the key factors for success.

This book presents hands-on lessons for starting, building and growing a successful company. The research is based on more than one hundred interviews with the founders and chief executive officers of America's most successful high-tech start-ups in Silicon Valley and Massachusetts as well as venture capitalists, investment bankers, lawyers and technologists involved.

"America's Most Successful Startups" is essential reading for students and practitioners who want to create their own successful and fast-growing company as well as researchers in the field of entrepreneurship and new venture creation.

